BANKING ON THE POOR

HEARING

BEFORE THE

SELECT COMMITTEE ON HUNGER
HOUSE OF REPRESENTATIVES

ONE HUNDREDTH CONGRESS

FIRST SESSION

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BANKING ON THE POOR

THURSDAY, MARCH 12, 1987

HOUSE OF REPRESENTATIVES,
SELECT COMMITTEE ON HUNGER,
Washington, DC.

The select committee met, pursuant to call, at 10:08 a.m., in room 2247, Rayburn House Office Building, Hon. Mickey Leland chairman, presiding.

Members present: Representatives Penny, Mfume, Patterson, and Gilman.

OPENING STATEMENT OF HON. MICKEY LELAND, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF TEXAS

Chairman LELAND. Good morning. I would like to thank our esteemed witnesses today for sharing views on microenterprise credit and the potential it offers to directly help poor people in developing nations. All of us look forward to discussing this important topic with you.

The select committee has taken a special interest in microenterprise credit over the past 2 years, particularly because of the leadership of the gentleman who sits to my right but philosophizes to my left, and who has offered real leadership in this area, the gentleman from New York, Mr. Gilman.

Last year, the select committee issued a report which examined credit programs for poor businessmen and business women and detailed several successful projects. We also held a hearing on microenterprise credit last February as well as several briefings for members.

The committee has concluded that providing credit to microenterprises is a highly effective way of helping the poor permanently to break out of poverty.

Today's hearing provides us with an opportunity to examine microenterprise credit in greater depth. The committee will be interested in hearing how effective credit programs are in helping people not only increase their income, but also enter the economic mainstream and have a positive effect on the local economy. We will also be interested in learning the role that indigenous nongovernmental organizations can play in extending credit to the poor. And we will examine in detail, ways in which the Agency for International Development and the multilateral development banks can expand their efforts to fund microenterprise credit programs.

Let me say that the Select Committee on Hunger sees the expansion of credit programs for the microbusinesses of the Third World as one of the most important hunger initiatives of the 100th Con-

gress. The effects of credit programs tend to be permanent. The costs to the U.S. Treasury are nominal, in fact, almost nonexistent. The results are such that hundreds of thousands of families can escape hunger, without question.

Our distinguished colleague, Mr. Gilman, has introduced a bill which I and nine other members of the select committee have cosponsored, to direct more funding to microenterprise credit. The bill, H.R. 1032, the Comprehensive Microenterprise Credit Promotion Act of 1987, would make available U.S. Government-owned local currencies to fund microenterprise credit projects. It would also direct the multilateral development banks to establish funds to support credit programs for the poor.

The committee's study of microenterprise credit has shown that it is an effective tool to help people break the cycle of poverty, chronic malnutrution, and economic stagnation. It is one of our best opportunities to help many people help themselves in a most productive way. This hearing will address the need for the U.S. Government and others to provide additional funding for these valuable projects.

Let me now yield to the gentleman from New York, Mr. Gilman.

[The text of H.R. 1032 appears at the conclusion of the hearing, see p. 43.]

OPENING STATEMENT OF HON. BENJAMIN A. GILMAN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEW YORK

Mr. GILMAN. Thank you, Mr. Chairman, ladies and gentlemen, and our panelists.

I want to thank, first of all, our good chairman, the distinguished gentleman from Texas, for holding this important hearing at what I consider to be a very appropriate time, early in the session, as we start developing some new programs and new policies and taking a hard look at the budget.

There is a great deal of current interest surrounding the vast amount of possibilities in microenterprise finance. And I'm pleased that our committee is going to be able to serve as a vehicle to shed more light on this type of financing that can do so much good to help our developing nations.

The excellent committee staff work that went into our committee print on microenterprise last Congress also produced some good, sound recommendations with regard to the manner in which we should proceed in this session, and hopefully will help us lead toward a final adoption of this measure. We have already acquired a number of cosponsors, and I hope that those organizational representatives who are here today will help us in attracting even more interest with regard to this bill.

Those recommendations confirm two important lessons that we have learned in our work on the Presidential Commission on World Hunger and in my work on the House Foreign Affairs Committee. And that lesson, the important lesson, is that there is a role for the private sector to play in developing the Third World, an important role, and that it does not always have to conflict with indigenous beliefs in such a manner that completely changes the local economic, cultural, and political landscape.

Microenterprise finance not only helps people help themselves, but it also contributes greatly to the political and economic stability of each developing nation.

Research and committee testimony indicates that the informal sector economy employs from 30 to 70 percent of the labor force in developing countries. Informal sector enterprises or microenterprises include the hawkers and street vendors selling goods, clothing, services, and food in both urban and rural sectors. Such business activities can comprise up to as much as 80 to 90 percent of all of the economic activity in a given village or poor neighborhood in a developing nation.

Our bill, H.R. 1032, that we have recently introduced, along with my good colleague from Texas, Mr. Leland, seeks to enhance A.I.D.'s ability to target resources to those microentrepreneurs who do not have the opportunity to obtain credit assistance from existing formalized credit channels.

During the conference on the 1985 farm bill, we worked closely with our colleagues on both sides of the aisle to try to implement a program that would use local currency reflows from the Food for Peace Commodity Concessional Sales Program, referred to as title I, to promote private enterprise in developing countries.

Unfortunately, that legislation which was finally adopted, and moreover the guidelines that were eventually implemented, did not include any provision or incentive for recipient countries to target funds for microenterprise credit initiatives.

Under our bill, the local currency that would now reflow from title I food sales, would be provided on a concessional loan or grant basis to indigenous financial intermediaries, and would then provide small amounts of credit to those microentrepreneurs who do not have access to other formal credit sources.

I think it's imperative that A.I.D. find its way to help foster the entrepreneurial spirit so that the poor majority in the developing world can take part in their nations' development.

By so doing, we will not only be able to see a light at the end of the development assistance tunnel, but will also help the world become a safer place for all of us.

Accordingly, I look forward to this hearing, Mr. Chairman, to hearing our expert witnesses today so that we can learn how our committee can be of assistance in creating the right atmosphere for microenterprise finance to be able to flourish and to be a practical part of the solution to world hunger.

Mr. Chairman, I would ask that my full statement be made part of the record. Mr. Chairman, would you please forgive me if I have to run for a few minutes to another meeting, and I will return as quickly as possible.

Chairman LELAND. The Chair is forever aware of the industrious character of the gentleman from New York and does indeed excuse the gentleman. And the gentleman's statement, without objection, will be included in the record.

Mr. GILMAN. Thank you, Mr. Chairman.

[The prepared statement of Mr. Gilman appears at the conclusion of the hearing, see p. 72.]

Chairman LELAND. The Chair would now like to yield to the gentlelady from South Carolina, Mrs. Patterson, if she has an opening statement.

OPENING STATEMENT OF HON. ELIZABETH J. PATTERSON, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF SOUTH CAROLINA

Mrs. PATTERSON. Thank you, Mr. Chairman. I do not have a prepared opening statement, but my statement to you would be simply that I appreciate the opportunity to serve with you on this very important select committee and as the former chairman of our State Committee on Hunger, I look forward to sharing with you the information that we were able to gather.

I would like to say that I was a little bit late, but I brought with me an outstanding group of young ladies from South Carolina—our Girl Scouts—who are very, very interested in the topic that we will be discussing today.

Chairman LELAND. Well, we look forward to working with the gentlelady from South Carolina. We appreciate her leadership in this area in her State and we look forward to sharing with her the experience that she has gained through that leadership. Also, let me as chairman of the House Select Committee on Hunger welcome the Girl Scouts who have always been known to contribute a great .l to humanity, not only in this country, but also all over the world through their international organizations. We welcome the opportunity for them to be with us through whatever part of the hearing that they can. And thank you, gentlelady, for your wisdom in bringing them to this hearing.

Let me now turn to our panelists and introduce them. Let me welcome you all and say to you that we truly appreciate your participation here today. I will ask them to come forward as I call you. We are joined today by Mr. Camilo Lluberes Henriquez, the president of the highly successful ADEMI credit project in the Dominican Republic. Also, Ms. Jayne Millar Wood is on the panel. Ms. Wood is the president of Devres, Inc., where she has worked as a consultant for A.I.D. and the World Bank and is also a board member of Bread for the World. And Mr. David Richards, director of the Non-Governmental Organization Development Program at the International Institute of Environment and Development.

Ladies and gentlemen, please come forward and take your seats at the table.

We would ask that all of you give your statements in summary, and without objection, your full statement will be incorporated in the record.

We will ask that you make your statements as you were introduced.

Mr. Lluberes Henriquez. Senor.

STATEMENT OF CAMILO LLUBERES HENRIQUEZ, PRESIDENT, ASSOCIATION FOR THE DEVELOPMENT OF MICROBUSINESS [ADEMI], DOMINICAN REPUBLIC

Mr. LLUBERES HENRIQUEZ. Do you want me to start?

Chairman LELAND. Por favor.

Mr. LLUBERES HENRIQUEZ. I will read the principal, the main points of my presentation, in order to be short, and I will concentrate on the project itself, and will try not to talk about the general aspect of foreign aid.

In many cases, foreign aid, or financial aid, is motivated by humanitarian values, ends up in the hands of governmental elites and other power groups in developing countries. Yet, these groups enjoy a considerably higher standard of living than that of the average U.S. citizen.

Mega-industries, which are usually financed by international institutions, which are highly automated, aggravate the problem of employment in our countries and contribute to market inefficiencies by promoting oligopolies and monopolies.

Large industries in low-income countries, which are the equivalent of small- and medium-size industries in developed countries, create approximately one job for each $15,000 invested. By contrast, in the informal sector, like in the case of the ADEMI project, you can create one job with an investment of $300.

It is obvious, then, that donor countries and institutions should insist on obtaining guarantees from recipient countries that financial and technical assistance will be filtered down to the masses of the population where it can have the greatest potential to generate higher productivity and growth.

Thus, the government income in these countries, and the foreign aid, should be greatly concentrated to solve the problem of the poor and the underprivileged which represent the great majority of the people, and where the highest potential for growth is laying dormant for lack of resources and opportunities.

These concepts were fundamental when we founded ADEMI.

ADEMI is a nonprofit, private institution founded in 1983. Its objective is the promotion of employment and the strengthening of weak jobs in the informal sector or among the microbusinesses through financial and technical assistance. Through this assistance, which is not afforded to this sector by the formal private or public institutions, ADEMI guarantees microbusinesses and their labor force sustained growth and stability, and their eventual incorporation to the formal sector of the economy. It is one of our main objectives.

The program concentrates mainly in providing working capital loans for the purchase of raw material.

Microindustries usually finance themselves from individual money lenders at a rate of interest that ranges between 2 percent per day and 20 percent per week, as they do not have access to commercial banks due to the fact that they cannot provide satisfactory collateral. ADEMI requires only an IOU as collateral and we charge commercial bank rates.

From the beginning, the project was set up to be self-sufficient. We didn't want a project that had to live out of donations. We wanted that the project had to cover its expenses with its income. That's why we charge commercial rates of interest.

We implemented the project with strict business criteria as far as the management and performance is concerned. All its promoters and directors are from the private sector, and it is managed really as a private commercial bank.

We broke even in 1986. So that means that we are covering all our expenses with the income generated from the interest that we charge.

During 1986, our income was $201,000 and our expenses were $200,000. So it was a break-even position. Since 1983, when we started, we have financed 2,772 microbusinesses. We started in the poor barrios of Santo Domingo, but now we expanded to 13 cities of the country. And we will continue that expansion to have national coverage.

We have made 10,000, almost 11,000 individual loans to these 2,772 microbusinesses. Our loans were $3.6 million up to 1986, and the average loan has been $330. Our portfolio is about $560,000.

The program has had a very positive effect on the income of its beneficiaries. The income increased 37 percent. Also it is important to note that the microbusinesses with the highest rate of growth were the smallest and the marginal that were almost disappearing.

From 1985 to 1986, employment increased 52 percent in the microbusinesses totally that we financed.

Also, the average number of jobs increased from three to five per microbusiness.

Profits, when you look at it universally, increased 50 percent.

The recuperation of loans, which is a very important point, so the program could be a sustained program, was fairly good when compared to other projects. Arrears up to 90 days represents 17 percent, but really lost, in the 4-year experience, is only 3 percent, and is usually due to the death or very large disgrace in the family or the microbusiness.

So, what is our key message, our motivation? We believe that if we are to strengthen democratic principals in less-developed countries, facing massive unemployment and underemployment, we must provide the people the opportunity to develop their individual potential to earn a decent living. Most of these countries have made great strides toward the achievement of political freedom over the last decades.

However, one cannot say that these countries are democratic in the strictest sense of the word. Democracy cannot be defined only as a political freedom. It is imperative to include in the concept economic democracy as well.

What motivates us to implement the ADEMI Program is the belief that the majority of our people could well lose faith in democracy as a system, in the event that the system fails to provide the basic necessity of life. We have based in Latin America our system of government in the two great western revolutions—the American and the French—which defined clearly the fundamental rights of man.

But to what extent has society in these countries in Latin America guaranteed man's quest for the pursuit of happiness?

Why does almost 50 percent of the population subsist at a level of such poverty and malnutrition?

Why does society not provide opportunity to even those that have the capacity and knowledge to develop their own business at the lowest scale?

You will have to agree with the extreme imperfection of this concept of democracy.

The danger is that these questions are being asked constantly by the rural and the urban poor all through the developing countries.

It is evident that democracy, at least in Latin America, needs to redefine its outlook to provide opportunities to the majorities.

In most countries, the development process has emphasized the use of capital, which is a scarce resource, to the detriment of labor, which is an abundant resource. And this is why we have such a tremendous degree of unemployment and underemployment. But in addition, the capital that is available does not filter down to the small and microentrepreneur. Rather, it tends to stay among the medium and large businesses.

One would have to be too optimistic to think that a system so unjust could prevail only by calling itself democratic and holding elections every 4 years. This political system could vanish as the great majority of the Latin American population loses faith in the incomplete version of democracy that we are offering them.

So, ADEMI is nothing else than the effort of a group of more advanced businessmen who are trying to redefine democracy through realistic action. We are trying to integrate the poor that are willing and prepared to work into the economic and social life of the country. And we are trying to convince power groups that these people deserve the same rights as the minorities to develop themselves using the means that society has available.

We are trying to get the private banks and development institutions in our country to reserve a portion of their funds to the financing of the micro and the small entrepreneurs. And as a matter of fact, I am a congressman since August, and I was elected by the District of Santo Domingo. And I am working on specific legislation in the Dominican Republic that touches all these matters; which I would propose, and I have discussed the matter with our president, and he is in full agreement that we have to reserve a given percentage of the portfolio of the private, commercial banks for the development of microbusiness in the country.

So, what is the objective of ADEMI? We have proved the pilot project. So now we are aiming at financing 25,000 microbusinesses over the next 5 years, to create and strengthen 100,000 jobs with an indirect impact on a population which will amount to about 600,000, which will represent about 10 percent of the population of the country. And all these would be done with a portfolio of about $5 million.

Thank you very much, Mr. Chairman.

Chairman LELAND. Thank you, Mr. Lluberes Henriquez. We really appreciate your participation, especially since you are one of our colleagues.

[The prepared statement of Mr. Lluberes Henriquez appears at the conclusion of the hearing, see p. 76.]

Chairman LELAND. Let me now ask Ms. Wood to make her statement.

STATEMENT OF JAYNE MILLAR WOOD, PRESIDENT, DEVRES, INC., REPRESENTING BREAD FOR THE WORLD

Ms. WOOD. Good morning. I'm Jayne Millar Wood, and I am here as a member of the Bread for the World board of directors. I'm also

the president of Devres, an international development consulting firm which happens to be a small business and women-owned, so I have a particular interest in this legislation from that standpoint.

I am pleased to represent Bread for the World at these hearings, which are very important, as they will focus legislation on the U.S. and multilateral donors' work with microenterprises that are run by the poorest people in the Third World. As you may know, Bread for the World is a grassroots christian citizens' movement of 40,000 members who I hope contact each of you from time to time, and who are very committed to working on problems and issues related to hunger and poverty and to working hand-in-hand with you to move legislation and public policy that will address these issues.

I applaud the committee's attention to ways that our foreign assistance program can be better targeted to assist the poorest people in improving their economic and thus their social well-being. Mr. Chairman, you and your colleagues on this committee have been at the forefront of efforts to channel more support to microenterprises. Your leadership, Mr. Leland, is especially appreciated as is Congressman Gilman's hard work on H.R. 1032 and Congressman Bereuter's diligent efforts on the Banking Committee. We appreciate your strong commitment because it is with the commitment of each of you that we'll be able to move others in the direction of making legislation that will direct our resources to the right places.

As I am submitting a written statement, I would just like to make three brief points, and then allow some time for questions when we're completed. I'll deal with the importance of microenterprises, the role of MDB's and the Gilman bill, in particular.

First, as I think has been stated by everybody here, and certainly all the paperwork that we've received prior to the hearing, demonstrate that microenterprises are a very important part of the informal structure in both rural and urban areas. But they do need some help. Typically, they are enterprises with four or fewer workers and they are owned by the poorest people. These people, despite their poverty and their at risk status, are resourceful, and I believe motivated to improve their lot in life. However, most microentrepreneurs lack access to credit on reasonable terms. In addition, they may lack knowledge or access to the most appropriate technologies or standard business practices, and they may need some help in training their own staff. It may be the case in some countries that customs, for example, related to women's role in work, prohibit their full participation in microenterprises and it may even be that there are laws in some countries that discriminate against micro or small enterprises. This legislation helps to address some of these issues.

There are credit programs that work, and we've just been privileged to hear about one of them. I think that those programs that do work respond directly to the needs of the microenterprise entrepreneurs. They are flexible in terms of their lending procedures, and I like the IOU concept. I think that's a great idea. I wish I could work that out with my bankers.

They operate through and are accountable to local groups and agencies, which I think builds more group solidarity. They try to promote group solidarity by means of mutual guarantees of repay-

ment and local involvement. They encourage savings, which is very important to any economy, no matter how large or small. And when necessary, they provide some technical assistance that is tailored to the particular needs of given microenterprises. As can be demonstrated by a number of reports from the World Bank, A.I.D. or from other institutions, when you use local indigenous groups and when you apply some of these provisions, you can have a significant impact in terms of generating jobs and generating more income for people.

Second, relating to the multilateral development banks, it seems to me that they should be playing a much bigger role in fostering microenterprise development, that they need to be much more responsive to the particular needs of microenterprises, particularly since they have a good share of the money and a lot of financial expertise that the microenterprises could use.

I think if there were more participation by the MDB's, and we'll talk a little bit about that later, it's possible that they could even help some of these smaller enterprises begin to graduate into more sustainable situations and become small- and medium-scale enterprises.

I think the record to date, however, for MDB's is kind of mixed. Perhaps the most effective work has been done by the Inter-American Development Bank through its program for the funding or financing of small projects. Money has been channeled through private, local intermediaries to individuals or groups who lack access to regular channels. Not all of these project beneficiaries have been micronterprises, but some of them have, and with those enterprises as well as with the slightly larger small-scale enterprises, there have been some impressive gains in terms of income and employment. I think the World Bank's track record is not really as good. It has not targeted its efforts specifically on microenterprises, although there's an increasing demand for that assistance.

In preparing for this hearing, I reviewed an in-house document carried out by Mr. Levitsky, which noted that, in most cases, bank lending has not benefitted the very smallest enterprises. To do this would require changes in World Bank priorities and procedures, their choices of intermediaries and the conditions of lending and project preparation.

Bread for the World is very concerned about this, because we see a lot of resources in that institution that aren't being directed to the needs of the poorest people. It seems to me that, now that Congress is going to be considering an IDA replenishment, this is an opportune time to look at the role of the World Bank and its particular focus or lack thereof on the poorest people.

I think to be more effective the Bank will need to work much more closely with locally based NGO's and develop their indigenous capacity to manage microenterprises.

In short, microenterprise lending by the World Bank and other MDB's is long overdue.

Third and finally, Bread for the World supports H.R. 1032. We believe it provides an innovative approach to supporting microenterprises that are run by the poorest people in developing countries. The bill emphasizes the important parts of microenterprise programs, including targeted financial assistance to the smallest

companies, recognition of the need for institutional development and technical assistance and training, an emphasis on local intermediaries working with local borrowers, the critical role of women in the economy and the role they play, particularly in the nonformal sector. It also focuses attention on the potential of and the need for increased MDB activity in this area and specifies ways that can happen, for example, with the U.S. executive directors in the various MDB's encouraging or negotiating for particular designated funds to be set aside for microenterprises.

I think this is a step in the right direction, as is the concept of a loan guarantee fund which would be very helpful, and a greater focus on monitoring and evaluation of projects. I would certainly say as a person who has done a lot of evaluation work on development projects that this is a key aspect—holding institutions accountable, no matter how large or how small, to the goals and objectives that you in Congress set.

Bread for the World welcomes this opportunity to share its views with the committee and we very much appreciate the committee's interest in this legislation that seeks to address the needs of the poorest people.

I would like to enter my full statement, and be prepared to answer any questions you have.

Thank you very much.

Chairman LELAND. Thank you very much. And without objection, your full statement will be entered into the record.

[The prepared statement of Ms. Wood appears at the conclusion of the hearing, see p. 106.]

Chairman LELAND. Let us now turn to Mr. Richards.

STATEMENT OF DAVID C. RICHARDS, DIRECTOR, NON-GOVERNMENTAL ORGANIZATION [NGO] DEVELOPMENT PROGRAM, INTERNATIONAL INSTITUTE FOR ENVIRONMENT AND DEVELOPMENT

Mr. RICHARDS. Mr. Chairman, thank you very much for the opportunity to provide testimony before the Select Committee on Hunger. Yours is a most worthwhile effort.

My comments will address the role of indigenous nongovernmental organizations in providing microenterprise credit to poor people in developing countries. I will describe their carrying capacity, and their special assets and liabilities.

I would like to begin by congratulating the authors of the proposed bill. The objective of empowering the poor by providing opportunities for individual and group enterprise is a powerful one.

Successful microenterprise can generate a significant surplus for poor people to go beyond meeting their basic needs for adequate food, shelter, and clothing. This surplus is the key means by which the cycle of poverty can be broken because it can result in savings, which is the essential ingredient for sustained individual economic change. A surplus is the foundation for the creation of wealth and the sum total of small-scale wealth creation is an important engine for national economic development.

We know this, but our problem has been how to make the opportunities inherent in microenterprise available to those in need.

Loaning money to the poor cannot be taken lightly. The poor are engaged in a survival strategy and asking them to go into debt for approximately 50 percent of their annualized cash incomes for a venture that may or may not succeed is a weighty responsibility.

Unfortunately, there are thousands of examples of failed microenterprises sponsored by well-qualified organizations with the result that their clients' survival strategy became even more precarious. The question is, who can work with the poor at the end of the resource transfer chain so that the fundamental principles of enterprise, especially those related to product and market, are not violated, even at the microenterprise level where they are more, rather than less, important. Many institutions have a role to play. But indigenous, nongovernmental organizations will be critical to the success of the bills under consideration.

These types of organizations are local area institutions, usually serving more than one village, but usually less than a province or a state. There are thousands all over the world, but not nearly enough to cope with the size and scope of the proposed legislation. Viewed as a group they share some fundamental operating principles which make them successful where so many others have failed.

The best of these organizations see development in terms of increasing productive resources rather than in terms of rapid, short-term economic growth.

They create and strengthen local village organizations to sustain economic development.

They look upon microenterprise as part of an integrated community development program and don't artificially isolate.

And perhaps most important, NGO's recognize and rectify error.

NGO's have special capital or credibility for several reasons.

They have demonstrated willingness to work with the poor, to stay present and resident in their environment. And they have credibility with their clients, which is a very high value item according to the evaluation literature of failed projects.

In most cases, microenterprise development is not the central component of NGO programs. Their origins lie in social services delivery, related to health, education, and meeting basic needs. They play the role of delivery channel for services subsidized by the government in international philanthropy. But the situation has changed. NGO clients are expressing the need for income and employment opportunities that go beyond social services delivery.

NGO's have reached a point on their institutional learning curve that informs them that long-term subsidized programs create dependency, quite the opposite desired outcome.

And, NGO's are searching for strategies to sustain the gains realized through services already rendered.

Typically, eliminating or reducing dependency is tanslated into a need for income generating activity, and that usually means micro and small enterprise, the art of generating a modest saleable surplus.

NGO's all over the world are interested in making the transition from social services delivery agencies to community economic development institutions. While many possess the positive characteristics I have outlined, most bring serious liabilities to promoting en-

terprise development. Major ones include: having few entrepreneurs on the staff which results in little entrepreneurial savvy; little appreciation for the relationship between production costs and the product sales levels required to cover these costs to generate a sustained surplus even at the microscale; little experience in dealing with enterprise-oriented vested interests—those forces in a community that can so powerfully effect the process of change. They have unfounded optimism regarding marketing opportunities for the products or services of new or expanded microenterprises. And they often underestimate the level of effort required to undertake small scale enterprise support activities, such as credit administration.

But the assets outweight the liabilities. NGO's are all at some point in the learning curve between not knowing anything about microenterprise promotion and providing program models for how it can be effectively done, such as Gramine Bank, the Working Women's Forum, and the Turkish Development Foundation, which I wish I had time to tell you about.

The challenge is to develop the means whereby NGO's can accelerate their movement on the learning curve.

Why are NGO's so critical to the proposed legislation? Because they are an effective channel to the poor. What can they do? They can help people think through microenterprise ideas so that the good can be separated from the bad. And unhappily, there are a lot of bad ideas.

They can help protect the precious investments the poor are going to make in microenterprise. They can help poor people to overcome short-term cash flow crises, which are the bane of microenterprises worldwide. And they can help poor people overcome their well-founded reluctance to go into debt. And finally, they can address other critical, noncredit related factors affecting broad-based microenterprise development, including maintenance of the natural resource base upon which these fragile microenterprises are going to be built. This point is worthy just of a moment's mention.

In rural areas, at least, the majority of new micro and small enterprises are going to be related to agro-processing or off-farm manufacturing of some sort. Only a few will be trading enterprises. The former will consume some part of the natural resource base—land, water, minerals, biomass, whatever—or will have some impact on them. Careful consideration has to be given to the impact micro and small enterprises as a group will have on the local natural resource base. If we don't, our programs could be trading present problems for more serious future problems. If we don't, we ignore the important issue of sustainability, how the enterprise is going to get its raw material through time, whether it is farther for a cow, or clay for brick making.

I advise caution in placing our hopes in the caring capacity of NGO's to play the role assigned to them in the legislation. Everybody seems to have recently discovered NGO's. Donor agencies from around the world are competing for use of this scarce resource for enterprise, health, community development, and environmental agendas. Indigenous NGO's will need resources and

time to meet this demand. A significant part of the legislation should be targeted for this purpose.

Thank you very much, Mr. Chairman.

Chairman LELAND. Thank you very much. Thank all of you.

[The prepared statement of Mr. Richards appears at the conclusion of the hearing, see p. 112.]

Chairman LELAND. Mr. Lluberes, according to your testimony, the ADEMI project which you run became self-sufficient in 4 years. The committee's research has found that many projects, however, never become self-sufficient, and even decapitalize over time. What do you feel were the essential aspects of the ADEMI project which enabled it to become self-sufficient so quickly?

Mr. LLUBERES HENRIQUEZ. Well, from the beginning, we—our concept was that it was not—it would be the wrong objective to create an institution that would not be self-sustained, because we look at it from the private sector point of view. And I had a tremendous problem both with the government and with the international lending institution because they thought that it would be, it would not be a good idea to charge commercial rates, interest rates. At a point in the beginning I said well, then I will—we will not go ahead with the project, because unless we are convinced that the project can generate its own funds to cover expenses, then we are not interested in the project. Finally, we were able to overcome the opposition on the argument that it was a good idea to go ahead and implement the pilot project on this basis. And now everybody is following us. Now, the government and many of the lending institutions that thought that it would not be possible to lend at 22 percent per year, which is the commercial rate in the Dominican Republic, to the poor, when they were paying 2 percent per day, now everybody is realizing that it is possible and they are requiring that all the projects perform in the same manner.

Chairman LELAND. Very good. A.I.D. officials have suggested that credit programs are usually more effective when they target businesses with five or more employees, and we are concerned about that because we have a particular interest in reaching smaller businesses.

Have you found that this is the case through your experience in the Dominican Republic?

Mr. LLUBERES HENRIQUEZ. I didn't understand the question.

Chairman LELAND. Officials at the Agency for International Development have claimed that credit programs are usually more effective when they target businesses with five or more employees and individuals, who are not extremely poor. Have you found that this is the case in the Dominican Republic?

Mr. LLUBERES HENRIQUEZ. Well, we target at those projects that transform raw material, principally, because they have the greatest potential to generate employment and to grow. In the case of the vendors which is, we call them subsistence type of financing, because the vendor just generates income for himself. He is not in a position to grow. Usually, he doesn't have the potential to jump into an area of business while a shoemaker has unlimited growth potential. So when they transform raw materials and when they have an ability, we try to find them wherever they are and finance them.

Chairman LELAND. Mr. Lluberes, in your testimony you stated that for every $185 invested through your microenterprise credit project, one job has been generated and sustained. You go on to say that with $1 million, ADEMI could create and strengthen 5,000 jobs. Are you concerned about the capacity of your credit project to create employment. Do you feel that at some point in the future, the economy will not be able to absorb effectively more credit for small businessmen and women?

Mr. LLUBERES HENRIQUEZ. I think the potential—we look at, I said in the end, we look at financing 25,000 micro-businesses in the whole of the country, within a 5-year period. And we will do that with a $5 million portfolio. And we say this because as I mentioned before, what we have implemented is a pilot project in the city of Santo Domingo which started to expand last year.

The figures that I gave you in my presentation is the accumulated experience of 4 years in this area, and I feel certain that it can be achieved, it can be achieved.

Chairman LELAND. Very good. Let me ask the gentlelady from South Carolina if she might have some questions.

Mrs. PATTERSON. Thank you, Mr. Chairman.

Mr. Lluberes, thank you for your testimony. I'm very interested in some of the information that you shared with us. One thing I wasn't certain of, and I was wondering if you would tell me again, about the percentage of defaults. I wasn't certain. It sounded good.

Mr. LLUBERES HENRIQUEZ. That's right. We have experienced an average of 17 percent arrears, or I don't know what you call arrears, delay in payments. But this 17 percent, usually what happens is that the newest businesses, the ones that have not grown enough, that we have just started financing, they fall into cyclical problems and crises. And then we help them with assistance, technical assistance, marketing assistance, to get out of it, and eventually they pay. What we have experienced as a real loss of portfolio is only 3 percent. And a good portion of that is due to a disgrace, you know, in the family or the death of the microbusinessman, which we are now trying to cover by insurance. But I can tell you that I am a member of the Board of Banco Popular in the Dominican Republic, and our performance, the performance of ADEMI in that respect is better than that of the largest commercial bank in the Dominican Republic.

Mrs. PATTERSON. That's a remarkable record. I had misunderstood earlier, instead of 17 I heard 70 and then I heard when you worked with them it came down to 3 percent. I must tell you that before I came here this morning I was meeting with our Small Business Council for my State of South Carolina and I would love for you to go down there and work with them on our small businesses, so you could make so many successes.

The other question I would have for you, which would be very obvious as a woman, I noticed in your statement that 21 percent of your beneficiaries I believe are women, and I wondered, did you all actively seek out these women or did they come to you or did you experience certain problems dealing with women and the opportunities of credit to them in your country?

Mr. LLUBERES HENRIQUEZ. On the contrary, we have found through our experience that women are the most efficient micro-businesses.

Mrs. PATTERSON. We've been trying to tell them that here in the States.

Mr. LLUBERES HENRIQUEZ. And we tried to emphasize, especially in the clothing manufacturing, we have a lot of women, and the potential to finance is tremendous in the country. And then also in what we call the solidarity groups, which are the vendors, in the public market, the rate of financing is higher for women than for men.

Mrs. PATTERSON. Some day I hope to visit your country and see some of these programs.

Thank you very much.

Chairman LELAND. Mr. Mfume.

Mr. MFUME. Thank you, Mr. Chairman. One quick question for Mr. Richards. There has been some debate back and forth on the subject of definition as to how small a microenterprise is or is not. This bill defines microenterprises as composing of four or less individuals. Some people have recommended amounts as high as 20. Can you tell the committee what you feel is an appropriate cutoff point for number, for microenterprise, and second, can you also tell the committee, relating now to the number that is referred to in the bill—four—if a microenterprise is that small, can it effectively use credit?

Mr. RICHARDS. I'll try to report on the experience of groups that I have worked with primarily in Asia, indigenous, nongovernmental organizations. The definition that they use doesn't have to do with numbers, it has to do with ownership. Who owns the business. I have seen virtually dozens of successful collective microenterprises, primarily owned by poor people. I can think of several that employed 25 or 30 people, but still are essentially microenterprises in the character of how they work.

In general, when a number is given, the number has been 10 or fewer. Now, what the difference is between 4 and 10 is very difficult to say. We have to make a cutoff someplace. One group that I worked with valued the—indicated the replacement value of the assets of the enterprise. So you could have a microenterprise if there was a lot of labor that individual, poor people put in, and they built buildings and so forth, you still had a microenterprise. But the replacement value of that if you contracted with somebody to come in and actually build it, might be several thousand dollars, $5,000. That was another way that people have dealt with it.

The answer to your second point is, yes; they can effectively use credit, if the credit is provided in such a way so that there is a realistic hope that the microenterprise will thrive.

The problem with microenterprise and small enterprise is that it operates at the margin. The surplus, the profit generated, just barely covers the cost of operating. And that means that they're very sensitive to raw materials prices, to any kind of constraints in the environment. These are the kinds of people who go out of business first. And the difficulty, the challenge, the opportunity is helping to identify those microenterprises that are going to be growth microenterprises. There's a ticket. How can you get a $10-enter-

prise to become a $12-enterprise? Because no enterprise, even at the micro level, is going to, because it operates at the margin, is going to be able to continue providing an income sufficient to meet the needs of the owner through time.

He or she is subject to inflation just the same way that anybody else is. How can it grow? That's the challenge that we have to face.

Mr. MFUME. So you're saying that size is not necessarily consistent or determinant of efficiency?

Mr. RICHARDS. Yes, I am—although my personal impression is that micro and small enterprise are more efficient in the use of capital than medium and large enterprise; yes.

Mr. MFUME. Thank you. Thank you, Mr. Chairman.

Chairman LELAND. Mr. Gilman.

Mr. GILMAN. Thank you, Mr. Chairman. I'm sorry I had to go on to another hearing, but we have our panelists with us. Mr. Richards, I'm told at the end of your statement you admonished policymakers everywhere not to overburden the NGO's with microenterprise financing, that indigenous NGO's should be targeted. I assume that you're aware that in our bill, H.R. 1032, we place primary emphasis on indigenous nongovernmental organizations as financial intermediaries. Are you aware of that?

Mr. RICHARDS. Yes, sir.

Mr. GILMAN. And we were very much concerned with the concern you've raised of imposing the burden upon them.

In your testimony, too, you point out that commercial banking institutions have not provided credit to microenterprises for several reasons—statutory interest rates that are too low, excessively high transaction costs, a need for collateral. Do you have any recommendations as to what could be done to eliminate some of those obstacles that you mentioned so that business people with small entrepreneurs would have more access to formal credit?

Mr. RICHARDS. Well, I suggest the establishment of nonformal banks that operate on a different premise than formal commercial institutions. Nonformal banks are the outgrowths of credit projects. The problem with projects which have credit is that they're transient institutions, and everybody knows it. Poor people do not engender a lot of confidence in these temporary financial institutions that they borrow from. Maybe they'd be happy if the institution went out of business, because it might mean that they don't have to pay the loan back. But if they have a savings program attached to it, then they're very reluctant to save there.

I recommend that either as branches of formal financing institutions, nonformal banks can be established which recognize the local lending and saving patterns of that particular environment, that charge a real rate of interest for doing business at this level. The unfortunate truth is that lending money to poor people costs more than lending money to middle income or wealthy people. But as——

Mr. GILMAN. If I might interrupt, why are there additional costs? I understood the repayment rate is quite high among them.

Mr. RICHARDS. Oh, yes. Yes, the repayment rate is very high. But the numbers, absolute numbers of loans that you're dealing with is much higher as well. Just the record keeping and administration, the special service needs. It's very labor intensive in terms of the

advice that micro and small entrepreneurs require to get the loan, to repay the loan, to have assistance with their enterprises. But as my fellow witness said, the repayment rate has been very good and so there is every reason to believe that the repayment rate is good even though the interest is not subsidized. But even at a nonsubsidized level, it's much less than the informal sources of credit where people are paying, what did you say, 2 percent a day or 10 percent a week? It's extraordinary. So the experience of groups that I've worked with has been that low-income people are very willing to pay interest rates that are higher than the commercial bank rates, that are still two-thirds lower than any other source of finance that they have, and that's how nonformal banks can break even and even make a slight profit at doing nonformal banking operations.

Mr. GILMAN. Except there's a danger in discouraging the small entrepreneur when you get too high a rate, something I think we certainly want to avoid.

Mr. RICHARDS. That's right. It's a tradeoff between having the long-term presence of a capacity to provide the finance. The money has to come from somewhere and unless it's going to be subsidized, it has to come from repayments of those loans that are real cost, at the real cost of doing business. Now, happily, that doesn't mean that it's excessive, because successful nonformal banking institutions don't have the talismans of formal ones. They don't build edifices in rural areas where people are intimidated to come in and get a loan. You're talking about small, modest buildings and village environments. And a wonderful example in Working Women's Forum in Madras, India, started by a woman named Jaya Arenachalem, who works with 10,000 street women. She started a bank and the bank is for productive enterprises. And the people on the board of that financial institution are former clients who come from the rank of the poorest of the poor in Madras. And they are also the tellers and the clerks and the bookkeepers for the bank, too, and their wages are similar to their counterparts who are coming in for loans. So it can work. It's very exciting.

Mr. GILMAN. Thank you.

Mr. Lluberes, ADEMI uses solidarity groups of five members to mutually agree to guarantee loans to individual members. Other successful projects that this committee has studied, including the Grameen Bank in Bangladesh have also used that approach to guaranteeing loans. And in our legislation, H.R. 1032, we explicitly recommend the use of solidarity groups. Can you explain a little more fully how these groups work and so you recommend the use of a solidarity group for all microenterprise credit programs?

Mr. LLUBERES HENRIQUEZ. Well, we are using these in the public market with the vendors, because they generate income almost at the subsistence level. So unless you organize the solidarity group where each member guarantees in the event that one of them fails to pay, it's very difficult. So, but in microbusiness where you have a continued growth as you start financing working capital, and also providing fixed assets loans, you do not need this concept of solidarity; because our experience shows that the profits and the income in the microbusiness increases tremendously over a year of financing, over the first year of financing. And so this is only required to what we call the subsistence level projects.

Mr. GILMAN. Mr. Lluberes, you also mentioned in your testimony, you have a savings component to your project that amounts to some 48 percent of the investment portfolio. Is that a forced savings program or is it voluntary; what are some of the benefits you see for microentrepreneurs being involved in that kind of a savings program?

Mr. LLUBERES HENRIQUEZ. It's a voluntary program. Because we operate through the commercial banks. We do not handle money ourselves. When we lend, we take, the first time, we take the microbusiness to the commercial bank. We open an account there, a current account, and a savings account. Our experience—we do this because our objective is eventually to integrate this man to the formal sector, to the formal commercial bank.

Mr. GILMAN. You said it wasn't mandatory. Then it is somewhat mandatory when you open up both accounts at the same time?

Mr. LLUBERES HENRIQUEZ. No, because we require that they operate through a bank, because it's the only way; they have never operated through a bank before. They don't know even what the bank is. But what is our objective? Our objective is that eventually they will not be our customer for all of their lives. When the business grows to the point where they can become subject of a commercial bank, then we transfer them to the commercial bank. So the contact has to be initiated from the beginning. Now, our experience has been that in the savings account, they start saving money, they start saving money as they grow. And because we only provide working capital loans, so they save money for their capital requirements, when they need to buy new equipment, and they save enough money, and it has increased 1,000 percent from 1983 to 1986, this savings.

Mr. GILMAN. In opening up that savings account, you're just encouraging them to do it, you're not telling them they have to do it?

Mr. LLUBERES HENRIQUEZ. Exactly.

Mr. GILMAN. You're just making it easier for them to do it by opening it up for them.

You mentioned that you've attempted to establish relationships between microenterprises and the formal commercial banks. Have you been successful in those efforts?

Mr. LLUBERES HENRIQUEZ. Yes. We have passed to the commercial banks a percentage of the microbusinesses that have matured to the point where we feel that they don't need us any more. In this sense, we got them to organize their accounting. When they are able to prepare already a financial statement which is a requirement for a commercial bank, then also when they have enough income already, and we feel that they can be a customer of the bank, then we take them to the bank and we say to the bank, here is a customer that you should keep, because he is requiring now $5,000 working capital loan every 2 months. So in this sense, we have been successful working with one bank in the Dominican Republic. Now, expanding into these, and going into the question that you asked before, one of the biggest problems is to get commercial banks involved into this type of financing. They are not geared to this type of financing, because the commercial bank loan officer is sitting at a desk. In order to find the microbusinesses, you have to go out into the poor neighborhoods and identify them and

make a small study of what is their potential. Commercial banks are not geared to that type of job. So I agree with the statement that probably what has to be done is to set up nonformal banks and as a matter of fact, we are thinking about converting ADEMI into a what we call the microdevelopment bank, Bank Micro it's going to be called. Once we have a $1-million portfolio, when we arrive there, we have requested the government already, legislation to convert ADEMI in the bank of the microbusiness, and then the association will stay itself as a, sort of as an association to defend the interest of these people. But I envision, that unless you create a banking institution, or a few banking institutions, specifically to take care of the problems of this sector, it's going to be very difficult for the commercial banks to do it.

Mr. GILMAN. Thank you. Thank you, Mr. Chairman.

Chairman LELAND. Thank you. Ms. Wood, in your remarks on the Inter-American Development Bank's small project lending programs, you mentioned that many of the loans have not reached businesses that were owned by the poorest individuals or that were small enough to qualify as microenterprises.

Do you think that credit projects which target very small businesses owned by the poor can be effective and self-sustaining?

Ms. WOOD. The short answer to that is yes. In both my informal remarks and my formal statement, I noted that some of the projects in that particular program were directed to microenterprises, though it wasn't the focus of the entire program to get to microenterprises, and that it had worked with some projects and had been effective. There are a number of examples. For example, in Colombia, there were several very effective projects working with and through microenterprises, delivering credit. We've heard from our colleague here, Mr. Lluberes, about the Dominican Republic. I think there are a number of other instances in Latin America where you find that the IDB has effectively and efficiently delivered funds to local intermediaries and other groups, including financial institutions, that could work with the poorest groups. I think that's a step in the right direction and one we should encourage and nurture and support.

Chairman LELAND. You mentioned that the World Bank should increase its direct involvement with indigenous, nongovernmental organizations, or NGO's. Do you feel it is realistic for the Bank to work with organizations of this size and if so, what do you see to be the benefits of their doing so?

Ms. WOOD. If I may answer the second part first, I think the benefits have been discussed here and described in many papers, and also by the individuals who are here today. The benefits are that local NGO's are familiar with the circumstances, familiar with the customs, familiar with the needs of the people and therefore are effective intermediaries, whereas sometimes outsiders or very large institutions might not be.

In terms of the World Bank, I think that it could direct a larger portion of its loan portfolio through designated funds, or through a loan guarantee program, to intermediaries that could work with the smaller, local NGO's and indigenous groups. It's a function of refocusing some of the work that the World Bank does on the poorest people, and they could do that. It's a function of choosing cer-

tain intermediaries to work with and making this a priority in their program. I feel confident that ways can be found for the World Bank to do that. They are already doing that in some programs. It's not that they haven't done it, it's just that it's not much of a focus.

Chairman LELAND. In your experience as a consultant to A.I.D., what is your view of A.I.D.'s efforts to support microenterprise credit projects? Do you believe that their efforts have been adequate? Do you feel that these efforts could be expanded?

I know it's a tough question.

Ms. WOOD. Let's see. I was working with the words adequate and expanded. I think that A.I.D. has done some very creative things in the area of microenterprise, and that they have sought through pilot projects to demonstrate the efficacy of using microenterprises as a vehicle for development and working with the poorest people, such as through the Pisces project, the Aries project, and even with slightly larger projects. One time I had the privilege of evaluating a lot of their small-scale enterprise portfolio, and found a lot of success, and those projects that were most successful had many of the elements and characteristics that have been described today. So have they been adequate? I think at the pilot level, they've been terrific. The question is, are they adequate to the need out there? I think the answer is no, that there is a tremendous need out there that A.I.D. could meet and work with if they had more resources to do so and actually had control of those resources for this purpose. This legislation goes in that direction, but it seems to me that you can only do pilot projects for so long and that you should then move on to expanding learning from those efforts and going on.

Chairman LELAND. Very good. As you pointed out in your testimony, the multilateral development banks have not made great efforts to finance microenterprise credit projects to date.

Why do you think they have neglected to do so and how could the programs in the Gilman bill move them to fund more credit programs?

Ms. WOOD. It seems to me Mr. Richards raised one of the problems, one of the issues that I hear constantly raised at the World Bank, which is, this is very difficult to administer, lots of little loans take a lot more effort, time, paperwork, people, accountability, monitoring, et cetera, so that 10 big loans would be a whole lot easier to do. It takes about as much paperwork to work up one loan as another. So I think that goes to saying yes, okay, we realize that to do a lot of little loans may take a lot more time. But perhaps the Bank could work more creatively than it does now with some local institutions who would handle a lot of that administrative work which they use as an excuse for not going forward with more loan funds for small scale enterprises.

I think there are examples—one is Women's World Banking, which is a project I think some of you are familiar with, where they have tried to work with loan guarantees. It's not a World Bank project particularly—it's a multidonor project—but it is one which has tried to work with a variety of intermediaries to meet the needs of microenterprise entrepreneurs.

I feel confident that if the Bank were motivated to designate some funds for this purpose, there are definitely administrative

ways you can work through local groups, smaller intermediaries, and local banks. I think there's a real track record, and there are some World Bank projects working through commercial banks in developing countries that have been successful. The issue here is doing more, and it's such a small program at the Bank right now that if you were really serious about it, if our executive director was required to work seriously on this issue and get some funds designated, we could see a lot more progress in attacking poverty.

Chairman LELAND. Mr. Richards.

Mr. RICHARDS. Yes, sir.

Chairman LELAND. Mr. Gilman's bill, H.R. 1032, would make indigenous, nongovernmental organizations the primary recipients of loans for microenterprise credit projects. Do you feel that A.I.D. has adequately emphasized indigenous NGO's in their existing programs?

And given their past experience, will they be able to direct the funding made available by the Gilman bill to the indigenous NGO's?

Mr. RICHARDS. In many countries in Asia, A.I.D. has established cofinancing funds, which are for the use of indigenous NGO's to undertake community development activity of many sorts. And I have applauded that and I have been instrumental in bringing together A.I.D. with many of these groups.

And sometimes, unfortunately, I've regretted it. And I have regretted it because the standard seems to be in many cases, let's have these groups come up to our standard of accountability of reporting, of project articulation, of conceptualization.

And then we'll give them some money, rather than have a partnership relationship whereby A.I.D. recognizes that every situation is different in every country, that administrative procedure and people think differently, they have different world views, and how can those resources be used to still support these groups even though they look different and it seems like the ideas are incomplete and so forth and so on. So I don't think that A.I.D. has done enough in trying to transfer resources to indigenous organizations so that they can pursue their own agendas well. I sympathize with some of my friends and colleagues at A.I.D., because they have an extraordinary problem. And the problem is the strings attached to the use of U.S. Government funds. I have prepared contracts for indigenous NGO's which incorporate by reference literally thousands of pages of restrictions on the use of U.S. Government funds. When you're talking about enterprise development where just by the very nature of the beast, you're not behaving like a public sector, you're being entrepreneurial, you need money when you need it and you have to keep up with entrepreneurial decisionmaking. You can't wait for some manager to decide that it's time for another disbursement. It's extremely difficult for those groups to use U.S. Government funds. And Mr. Gilman's bill makes mention of it, or perhaps in some of the testimony I read, about the waivers that would be required to really effectively support microenterprise development. And A.I.D. could do a lot by really thinking how are we going to change, to manage this new kind of resource allocation. What waivers are we going to go for? How are we going to go to bat so that an army of inspector generals auditors doesn't arrive in

some dusty little place and flick through everybody's receipts and say well that was for coffee and entertainment so that's disallowed. And it's a very difficult situation.

Chairman LELAND. You don't mind if we give A.I.D. equal time, do you?

Mr. RICHARDS. Yes, I don't mind at all.

Chairman LELAND. You mentioned that savings are the essential ingredient for sustained individual economic growth.

Mr. RICHARDS. Yes.

Chairman LELAND. Could you elaborate on the importance of savings programs? And would you recommend a savings component for all microenterprise credit projects?

Mr. RICHARDS. Yes, I would recommend a savings component for all microenterprise projects. And I do believe and I think experience tell us, that savings, no matter how small, is the beginning of a process of change. We talk about these things, cycles of poverty and so forth. But the only way that those things are really going to change is if people have an asset. They need a productive asset, which can be their microenterprise. And that has to be cushioned by a financial asset, so that the enterprise can suffer the normal ups and downs of what happens in business.

You know, we apply such stringent, we have such expectations of enterprises overseas; you know, in this country—I'm not telling you—but four out of five small businesses fail within the first 5 years. Well, we're talking as if we're going to have 96, 97, 98 percent success with microenterprise overseas, and it just isn't going to be so. Most of them, at least one-half of them or more, are going to fail simply by the nature of their being businesses. Businesses fail. They may start up again. They fail again. But the way that you can survive those ups and downs is by having a financial asset, a reserve, a savings that you can use as No. 1, survival strategy, that you can invest in changes in the economy of your family, and third, that you can protect your productive asset with.

Chairman LELAND. The examples you've given of successful credit projects in Turkey, India, Bangladesh, are good examples.

We've also heard this morning of successful projects in the Dominican Republic and other parts of Latin America.

Are you aware of similar success stories in Africa, and are there NGO's in Africa which could carry out such programs?

Mr. RICHARDS. That's a very good question. And I'd like to ask the advice of my copanelists or other folks in the room to help with that. The tradition——

Chairman LELAND. I welcome them to respond, also.

Mr. RICHARDS. Sure. The tradition of NGO activity seems to be less apparent in Africa than it is in Latin America or Asia. I am familiar with a couple of organizations which have the institutional maturity and the wherewithal to be able to implement the microenterprise programs along the lines that you are talking. And when I say that I am also including the wherewithal to be able to deal with all of the gobbledygook and all the negotiation and the reporting of this and that and everything else. I know many more who have just given a sum of money and said here, go do microenterprise, go do it, but there's a whole another side of administering that that we don't like to think about, but which is there. And I

think there are relatively fewer organizations in Africa that are capable of doing that.

What I said about, in my presentation, about NGO's starting with a different agenda seems to be particularly true in Africa. The great majority are still involved in social services delivery, which is part of the institutional development process that they go through. At some point, their clients are going to say hey, we've got a school, we've got a road, we've got a good water supply and diarrheal diseases are down. How about some cash? And then they'll move into that next phase. I would hope that part of Mr. Gilman's bill, and the other one, what is it, H.R. 910, can somehow find the resources so that groups from Latin America and Asia and Africa can not just trade experience but become almost semiformal training opportunities for each other. There's a new technology which can revolutionalize the principles of information transfer. And it's the video, amateur video. And there hasn't been too much talk about it, but the incidents where you take a group like the Working Women's Forum or the Turkish Development Foundation, or the others that I have mentioned, if the principles of how they work, their successes and their failures, were put on videotape, translated into a local language so that indigenous, nongovernmental organizations could view them, could in a sense get inspired by the principals of that, and can kind of vision themselves doing something like that, I think the process of capacity development would be accelerated.

Chairman LELAND. Do you think that's something that A.I.D. should pursue?

Mr. RICHARDS. Yes, I think that's something that A.I.D. should pursue, as long as we can keep it simple and amateur. I don't want to, I really——

Chairman LELAND. Is there some implication there?

Mr. RICHARDS. No. No. I don't mean to over-criticize A.I.D. You know, A.I.D. was the organization that really made the informal sector an agenda for many of our organizations. And the fact that they are being cautionary about this kind of legislation, even though I might disagree, I have to respect, because there's a lot of experience from a lot of people that has a view which we have to incorporate into our own enthusiasm about this. So yes, A.I.D. should pursue a program of cross-fertilization, of models of success, with groups who have the potential to be inspired by that, to try it.

Chairman LELAND. Let me say in defense of A.I.D., that having witnessed their involvement in the recent famine in Africa, and knowing the bad publicity that they received about misused food and unused food and surpluses not getting to certain places, I feel that they did a rather outstanding job.

Mr. RICHARDS. I agree.

Chairman LELAND. The American people now are still asking how effective our aid program to Africa was and I must say that A.I.D. operated in a exemplary manner there.

Mr. RICHARDS. Yes.

Chairman LELAND. And I think that you're probably right, that not just A.I.D., but all of our bureaucracies tend to have too much redtape. This is especially the case when you're trying to help people to evolve, which is what I heard you and Mr. Lluberes

saying, to a point where they don't necessarily need special credit institutions.

Let me just thank all of you.

Mr. GILMAN. Thank you, Mr. Chairman. Just one question, Ms. Wood. As an analyst, and having seen some of these microenterprises at work around the world, what sort of inputs do you recommend to make more credit programs available to the small business people, to be a successful program?

Ms. WOOD. In other words, what are the things that would make them work effectively?

Mr. GILMAN. Yes. What are the pluses that you see that could be done to make these programs effective?

Ms. WOOD. Well, it's interesting you should ask that. The timing is just propitious in terms of a project that I've just completed where I had an opportunity to review and synthesize the evaluations of over 250 A.I.D. projects, which weren't predominantly microenterprise. But in trying to pull from that experience a number of conclusions and lessons learned related to the private sector, women in development, institutionalization, and sustainability, we came to many of the same conclusions that have been voiced here in the last half hour, which is that many successful programs use local institutions that work with local people, provide resources when people need them, and provide training when it was needed, whether that training is in business practices, management, or transferring technology. We didn't look particularly at projects involving a lot of savings. We looked at a lot of women's projects, and found there was a close correlation between—this is something that was mentioned earlier—success of the project and the involvement of women's NGO's. This goes to Mr. Leland's point about Africa. I think it's true that there are fewer NGO's proportionately that are as effective as you might find in Asia or Latin America. But there are effective NGO's in the African context that can deliver services and manage these projects. I looked at one in Kenya and there are some in Senegal and I think you'd find some in between on the continent where they have worked very effectively. Frankly, many of those are women's organizations that are working with women in the informal sector, particularly in urban areas. So I think there's a real opportunity there and I think to the degree this legislation which you have introduced specifies very clearly the kinds of criteria for involving NGO's and designating funds, then you're hitting the nail exactly in the head.

Mr. GILMAN. Is there something that our NGO's can do to help the indigenous NGO's?

Ms. WOOD. Are you speaking to American NGO's?

Mr. GILMAN. Yes.

Ms. WOOD. Well, certainly there's a transitional role for American NGO's. I think it's clear that they have been great facilitators in some areas with some projects. My personal hope, and I think this would be for Bread for the World as well, is that we're moving in a direction where we're trying to capacitate local groups. That's a long way downstream for some of these countries. We've got a large area and a lot of people to work with and I think there's a very important role that United States as well as European NGO's, and in fact international NGO's as well, can play in working close-

ly with the indigenous NGO's. I think I would caution that we don't over-emphasize that role and that we should really have a focus on moving it to the local intermediaries, capacitating the local people. That's a very important thing. I think we need to be working ourselves out of a job, frankly.

Mr. GILMAN. Thank you. Thank you, Mr. Chairman.

Chairman LELAND. Thank you. Let me thank all of the witnesses and please know that we are going to call on you for your future advice, as we go on with these efforts, and particularly as we pursue the legislation that has been introduced. You've been very helpful. Thank you so much.

The next witnesses are from the Agency for International Development. Mr. Dennis Brennan, Deputy Assistant Administrator of A.I.D., and Mr. Michael Farbman of the Science and Technology Bureau, will be informing us of the Agency's experience with microenterprise credit.

Let me ask you to come forward and proceed as you wish.

And you have a third person with you whom you might want to introduce.

STATEMENT OF DENNIS BRENNAN, DEPUTY ASSISTANT ADMINISTRATOR, AGENCY FOR INTERNATIONAL DEVELOPMENT [A.I.D.], ACCOMPANIED BY MICHAEL FARBMAN, SCIENCE AND TECHNOLOGY DIVISION; AND JAMES O'MEARA, BUREAU FOR FOOD AND VOLUNTARY ASSISTANCE

Mr. BRENNAN. Yes. Mr. Chairman, I would like to introduce James O'Meara from our Bureau for Food and Voluntary Assistance, who will be able to discuss this morning section 108——

Chairman LELAND. We welcome your participation.

Mr. BRENNAN. Mr. Chairman, with the permission of the committee, I'd like to enter our statement for the record, and just add to it a few brief comments.

Chairman LELAND. Without objection, your full statement will be entered into the record.

Mr. BRENNAN. Speaking for my colleagues, I certainly found the testimony this morning by the three witnesses interesting, instructive, and very much in accord with our own findings. We work very closely with many NGO's, and I think that's reflected in what we've heard this morning.

First, I would like formally to introduce my colleagues, who are the real experts in A.I.D., on the questions before us here today. Mike Farbman on my right of our Science and Technology Bureau, probably has more experience in the Agency with small and microenterprise than anybody else in A.I.D. He's committed to making that an important part of our program, and the research and development work that he has supported over the years has brought that objective a long way. He'll be able to share with the committee the range of his experience and to contribute I hope substantially to this important discussion this morning.

Jim O'Meara of our Food and Voluntary Assistance Bureau speaks with experience, authority, and always with good judgment on Public Law 480, local currency generations, and the whole thicket of the world of Public Law 480, including section 108.

Before turning to my colleagues, I'd like to underscore, Mr. Chairman, the Agency's full endorsement of the purposes of the legislation that we're discussing here this morning. The bill is completely consistent with the mandate which we have accepted through the Foreign Assistance Act passed by Congress, which directs A.I.D. to address the fundamental objective of equity as an inseparable condition to economic growth.

Also, as our programs worldwide reflect, we fully recognize the partnership that we share with PVO's, cooperatives and other NGO's, is a critical element in the way that we work to meet that obligation of equity in economic growth. These groups often bring inside knowledge of local conditions, and as David Richards pointed out, a flexibility in reaching out which eludes us and which is often beyond our reach.

Finally, the extension of credit to micro and small enterprises is already an important part of the way that we try to address that issue. My colleagues will be able to talk about that. I am pleased to have the opportunity to appear before you and discuss these efforts with the committee, especially how we can make our joint purposes more effective.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Brennan appears at the conclusion of the hearing, see p. 124.]

Chairman LELAND. Thank you. Do your colleagues have statements that they would like to make?

Mr. FARBMAN. Yes. Thank you, Mr. Chairman. I would like to address the technical and substantive matters that are in the formal statement.

I very much appreciate the opportunity that this committee is giving us to present a picture of the growth of our program in this area over the last few years, which we consider to have been not insignificant.

As I go through my remarks, I will slightly edit them because I don't want to be redundant and I've heard an awful lot of the same points that I would make being made by some of the earlier witnesses on the panel just preceding us. What I would like to do, though, is in a sense tell a story of how we got to where we are right now, which we consider to be considerably different from where we started about 10 years ago, when we took quite seriously this matter of micro and small-scale enterprise, admittedly as a minority interest within U.S. A.I.D. It was not something toward which we were devoting a lot of resources.

We began with a research and demonstration project orientation in this area. We tried to pull together the state of the art, both in terms of our experiential background and knowledge gained by working in this sector—and the Agency did have some experience in this area prior to the mid-1970's—and also we engaged Michigan State University as our principal contractor to do surveys worldwide to understand better not just the assistance technologies, but what were the actual needs and opportunities and constraints on the micro and small-scale entrepreneurs that we wanted to deal with.

Over the years, Michigan State has worked in at least 11 countries, and has systematized the information and the data that

they've gathered over those years into what we think is a fairly important state-of-the-art report on what works, what entrepreneurs look to for assistance, where they get their resources, what their growth opportunities are and so on.

At the same time we've had, as has been mentioned, the PISCES project, which began, first of all, trying to understand what is going on worldwide by way of assistance to micro and small enterprises, what works, what doesn't work. In the second phase of the project we then began to do demonstration projects, to test for ourselves our own ability to push assistance farther down the size distribution of enterprises, to try to incorporate more micro and small entrepreneurs and small producers in our programs.

Several other demonstration projects were going on at the same time—not just ours, but those of the Inter-American Foundation, the Inter-American Development Bank, and many other donors. We tried to keep a watching brief over these, and eventually tried to pull all this together to the extent we were able. That brought us in December of 1986, to a conference which we convened in Williamsburg, which was designed to try to pull together the many threads of our experience: the research experience, the actual demonstration projects and to try to see if there are some consensus bottom lines to anything that we've been doing. Are there lessons that we've learned and learned well; are there things that we want to put into, for example, a strategy or a new programmatic statement for A.I.D. which are based on our experience and on the knowledge that we had gathered; and are there things that we would not want to do and that we would wish to discourage our missions from doing? All of this was with the intention of encouraging more resources to flow to this sector, which we have come to understand to be about as good as you have heard from the other witnesses that it can be for improving the employment and income status of poor people in developing countries.

If I may, I'd like to go quickly through the five important areas in which we tried to reach some kind of closure at our meeting in Williamsburg. We think that it highlights some of the principal issues that have engaged our attention over the years with regard to micro- and small-scale enterprise. I will go lighter on things where I think there is very little controversy and I will go a little bit more heavily on things that I haven't heard other people saying but on which we take a possibly different position or we just emphasize more than other people.

As I said, there were five key areas. We did try to draw some summary conclusions from them. There will always be exceptions to virtually every summary conclusion that you will draw and in fact you may have heard some of them voiced by other people testifying today.

Let me just quickly go through.

At the highest level, we were focusing on issues of macroeconomic and policy environment, recognizing that small-scale producers don't exist in a vacuum but they are part of a larger environment which includes infrastructure and policies and administrative practices and so on.

In short, we found that one has to be very careful in designing projects to make sure that one is designing them in an environ-

ment that is not adverse toward the beneficiary group that you have in mind.

It is often summarized as a phrase: scale neutrality. If there are policies abroad in a country that tend to discriminate against small-scale producers, then clearly all the credit in the world or all the training or technical assistance which has to fight that kind of an overwhelming policy disadvantage, is going to be less effective than it otherwise would be; in fact, sometimes it can be not effective at all.

For example, just to cite the kinds of things I am talking about, we found in doing research in Sierra Leone that sewing machines, the principal capital equipment used by a large number of poor seamstresses, were dutied as imported luxury goods, just like Mercedes Benz. It was part of the old colonial legacy. At the same time manufacturers producing similar kinds of textiles and clothing on a large scale were importing their capital equipment duty free. Clearly there was a built-in disadvantage for the small-scale producer.

Getting rid of that alone, for the many thousands of small producers that were affected by it, certainly would have a very substantial impact on their competitive ability and on their incomes.

I could cite several other instances of countries in which there were import duties that were discriminatively applied to the small-scale entrepreneurs. These often feature large in our policy dialog, when we use that as an important element of our private sector support, to try to eliminate this discrimination and to try to open the door so that credit and technical assistance and the other inputs can have some effect. The same thing can be said about the infrastructural environment. If you don't have roads for access to markets, such as in much of rural Africa, and you want to deal with a very dispersed rural population of small producers, and you don't have communications, you may have to think very carefully about to what extent you think it's worth your while investing directly in those enterprises at that time, until some kind of catch-up can be played in the environment.

We identified in the environment the importance of the agricultural sector. Through our surveys we have determined that a substantial amount of the rural production activity is not in farm enterprises. Most farmers are also producers of other, nonagricultural goods and services, and are dependent for their ultimate welfare on supplementary income they get from their nonfarm activities.

At the same time, they are very closely linked to the agricultural sector. The agricultural sector is the growth engine in virtually every country we work in. It is the largest productive sector, linking the prospects of the small producer very directly to the prospects of agricultural transformation, through backward and forward industrial linkages to that sector. Also, if they get wealthier, farm households are the principal buyers of the output of micro and small-scale entrepreneurs; therefore a conscious effort to try to tie the micro and small entrepreneurs into that environment is something that we advise in our programs. There is more at that level, but let me skip on.

At the level of institutions and institutional development, there is very little I think I need to add to what has already been stated,

and very eloquently, by David Richards and by the others you heard earlier.

We think that a capacity to assist this target group is of primary importance. When you've gotten below the environmental level you must have institutions through which to work. Obviously, A.I.D. or any other donor is not going to work directly with the target group. We have to capacitate intermediary institutions. The infrastructure of institutions in most developing countries is just not up to the task that we have in mind. That is something I think that we can all agree on categorically, that these institutions need to be strengthened if we're going to do lending or technical assistance or other kinds of projects that meet the production needs of this target group.

We, too, have identified the very important role of local NGO's that have the outreach into the community, that have embryonic programs possibly in a social sector that can be assisted to convert into economic and productive sectors.

We also wish to make a very strong statement in support of the U.S. PVO's, as one of the key bridging institutions to make it possible for the local NGO's to capacitate themselves to do the job that we think has to be done. U.S. PVO's have distinguished themselves in our and other donors' earlier projects, in doing this.

Following the institutions level a third area of interest concerns the scale of enterprise and who are the target beneficiaries in assistance projects. Legislation that has been under discussion does set targets in this area, and sets guidelines. It is our impression and our experience, though, that distinctions in these programs that are based on size or other ascriptive characteristics, don't tend to be helpful and don't tend to be associated with projects that we see to have been the most successful. One of our best current projects is operating right now in Kenya. It's called the Rural Enterprise project. Through the U.S. PVO that is implementing it, it is designed to capacitate 15, 20, possibly more local NGO's to do this kind of work over the next 5-year period.

They have found that because of the nature of the groups that they work with, and because a group that you might deal with in a locality or in a village is not going to set itself up solely on the basis of the size of the enterprise that the people are engaged in, nor will everybody be uniformly poor, constraints on targeting by income level or enterprise size are not helpful and may be counterproductive. The beneficiaries will all probably be in the poor majority but they certainly won't be uniformly in the lowest decile or any other kind of a measure. It would be very difficult for them to run that project—which has been one of the most successful—on such a basis, and there are very few successes in the Africa region right now. One of the most successful has been this one and it is operated without these kinds of constraints. It attributes its success explicity to being able to be flexible in the way it interprets its target group and its beneficiaries. I don't think it would be helpful if we were to limit that. I think most importantly, the kinds of assistance that they are delivering and the kinds of absorptive capacity of the beneficiaries are such that they believe they will do better working at that slightly higher level. In most cases, to create demand for labor that can be supplied by the otherwise more mar-

ginal microentrepreneurs whose businesses probably would not be helped as much, is at least as good as pushing on those particular enterprises in their development. Since other witnesses have implicitly testified to the contrary, perhaps you may wish to question me on that assertion later on.

Finally, too, I would certainly concur in everything that's been said about women and their success, and the projects that have been targeting them in particular. They have been excellent credit performers in many projects. We've looked at this particular statistic. We have seen that they are better credit performers often than the men in the same project.

There is a lot of debate, has been for a long time, and I don't propose to say that we can end the debate right now, on credit versus nonfinancial assistance. The focus of these hearings is on the credit portion of most projects. Although it has not always been said explicitly, at least you've heard an intimation in some of the other testimony that often it is necessary to support the credit with nonfinancial inputs. There is a whole array of different inputs that we could be talking about, including training, technical assistance, help with market access for the entrepreneurs, and the ability to attain in a timely fashion raw materials, particularly imported raw materials, where foreign exchange is a constraint. We're talking about the actual technologies that are used, and the productivity of the firm which is dependent on that. It's our view that very few projects, particularly when you're working down the size distribution, and amongst the poorest, the least capacitated entrepreneurs and enterprises, are going to be successful without some kinds of other supporting technical inputs. That is not to say that credit is not the single most important ingredient in many cases. You've heard Mr. Lluberes explain a project which has very sensibly identified a particular gap and has moved assertively to fill it, and that was the credit gap. That has not always been our experience, and we have found more often than not that you do need to support a credit program with other kinds of nonfinancial inputs. That's both at the institutional level—where we have to invest in capacitating an institution—and at the firm level, where we have to be prepared to continue to invest in the enterprise and its entrepreneur if he's going to be able to use that credit to its fullest extent. You can think of nonfinancial assistance as a catalyist.

Finally, the last point that concerned us at the workshop, and it's one that is of great concern to this Agency in particular, is the whole issue of cost-effectiveness, the fact that we don't have unlimited resources to do as much in this sector as we would like to do.

Cost-effectiveness, the ability to use our funds in the most productive way possible, is key to having maximum input for whatever limited resources we have available.

In terms of projects that are performing principally as banking projects or those in which you could isolate the banking or the credit function, A.I.D. has come to expect, and is usually able to find eventually, a self-sustaining credit capability in most of our projects. It won't always be there at the beginning. There are not all that many projects that have taken off quite so rapidly as the ADEMI project or even the Grameen project, which has taken 7 years to get where it is right now. But we do believe that ultimate-

ly a test of performance should be the sustainability of a credit institution.

As I indicated though, particularly when dealing with the poorest, we believe, there are other necessary functions at the level of the firm which also may be our responsibility to provide if the credit is going to be effective so that poor people will be the beneficiaries. This includes helping the small entrepreneurs themselves as well as the people who are hired by small entrepreneurs.

These other costs will have to be considered a kind of investment, an investment in productive capability, investment in the development capacity of a country. And we as donors have to be prepared, and indeed are prepared, to shoulder a certain portion of that burden.

However, the credit function of a project cannot always be expected to cover all of those costs, and A.I.D. does not expect that to happen, but we generally believe that a certain amount of this investment is required and to the extent possible should be recovered from the beneficiaries.

Where we can't recover from the beneficiaries it has to be written off as economic investment. The financial performance of the institution should not be burdened with the ability to generate the funds necessary for this, but rather it is justified by the long-term economic growth prospects that are created by this investment in the human and enterprise capital that results from our putting this money in.

Finally, at the level of a couple of general points, there was a very strong sense among the experts that were participating in our workshopthat because of the very heavy investment in operating costs of many of these programs, private institutions such as these NGO's that we've been working with will probably be reluctant to borrow for the purpose of relending and training for micro and small-scale entrepreneurs.

Moreover, we as donors, in carrying out our responsibilities to appraise and evaluate somebody whom we would lend U.S. Government funds to, have to be very circumspect about trying to force projects of this type to be run on a loan basis. These projects have traditionally prospered on the grants economy and to the extent you try to push them into a loan posture, I think it will be creating very substantial difficulties for the recipient institutions. You don't hear of too many projects that have been able to graduate from a grant to a loan-based status. It would be wonderful if it could be done, but one cannot be too optimistic about it.

Another thing that was pointed out as very important is that we have to recognize when projects have characteristics that are in some sense unique, and which are not subject to massive replication on a wholesale basis. By and large, that just does not work. The conditions under which we ask these projects to operate are so varied, and the projects have to be so carefully tailored to them, that it is misleading to think that because somewhere there is a successful model we can simply replicate it in other places.

Everybody knows about the Grameen Bank. Obviously, we have to look at to what extent did a very important cadre of people at Chittagong University have an important impact on its birth and growth. Mohammed Yunus, who has testified before this commit-

tee, is not an ordinary person. He's a very creative and almost charismatic leader amongst the people that he works with. I'm not sure we can replicate Mohammed Yunus. The same thing is true of dozens of other projects.

We have to be able to pick out that which is unique and that which is in some sense generic and replicable. To the extent we're able to do that then our ability to transfer successful elements of projects is enhanced, which is what a lot of our research program has been about. We have now tried to scale up from the smaller projects that we have been working with over the years by selectively taking elements of projects that work, trying to transplant them or increase the reach of the existing successful project. Thus, our approach in many countries is through what we call umbrella technical support projects, such as the one in Kenya that I just described to you. David Richards mentioned our PVO cofinance projects which are very heavily involved in the Asia region, but we also are starting to do them in the Africa region as well. We have centrally financed projects for the U.S. PVO community in which we are using our resources to help encourage them to increase their committment to the productive, rather than the social concerns on which they traditionally have focused, and to leverage as much as possible more programs of the type they support in the developing countries using our central grant funding.

Increasingly, under the bilateral program, where we have regional or provincial or rural development projects, you will see more and more often not just small farm credit or the establishment of rural nutrition centers or health centers, but also enterprise-oriented support projects.

We're also looking very carefully at something which we call a subsectoral or subindustrial approach where we address a whole industry and look at what can be done to improve the prospects of the industry as a whole in such a way as best to affect those people who are the small producers who are our target group and who are linked very importantly to that industry.

One example is a project we're doing with rattan furniture in Indonesia where we are trying to strengthen the markets and provide quality control technical assistance for the small cottage and household industries that are the principal producers in that marketing chain. And so far we've been very impressed with the quality and the results we've had. We're also doing it in the shrimp production industry and in metal working in Indonesia. We think that there are elements of this particular approach that can be replicated

Under the existing authorities that we now have, we are planning to encourage systematic dollar replacement, to the extent that's possible. Many of our PVO's are spending dollars overseas to purchase local currencies. We are looking into the possibility that U.S. Government economic assistance-generated local currencies could be provided to PVO's for certain programs, thereby saving the scarce dollar resources of a U.S. PVO to enable them to spread themselves over more locations and more projects. To the extent we're able to replace our dollars, assuming there's no additivity in our budgets these days for microenterprise projects, the more of it we'll be able to do.

I've listed several other new actions, Mr. Chairman, on the last two pages of the testimony, which we are committed to doing in both the research area, and to further demonstrate and spread our projects. This includes evaluation to try to answer some of the questions that are still outstanding on the impacts and the effects of these projects, not all of which are known clearly. We don't particularly know how sustained are our impacts beyond the termination of our project assistance, say 2, 4, or 5 years after. These are key issues, both for the institutions and ultimately for the entrepreneurs, the enterprises and the employed people that are affected by them.

We've enlisted in this effort to increase the quality and the level of our effort in this area, the U.S. PVO's, the cooperatives, the contracting community, academics, and even as somebody else pointed out, the other donors. We take a certain amount of pride in thinking that we have encouraged them to focus a bit more of their interest, if not always their resources, in this area over the last few years.

And in this respect, we certainly welcome the Congress' interest and your support through legislation that's been tabled in this matter, and wish to express once again our sincere willingness to work with you to try to make our shared intent more of a reality for U.S. A.I.D.

Thank you very much.

Chairman LELAND. Thank you.

Mr. BRENNAN. Mr. Chairman, if I could ask Jim O'Meara to say a few words on Public Law 480 and section 108.

Chairman LELAND. Certainly.

Mr. O'MEARA. Mr. Chairman, I'm here as the caboose on this train. I'm not here to discuss microenterprises, but knowing of your interest, and Mr. Gilman's particular interest in this bill, in the section 108 program, I thought it might be useful, Dennis to come along and give an update.

Congressman Gilman was a major contributor, an architect in fact, of the major provisions of the 1985 farm bill, particularly title 11 He already knows, I'm sure, that we've got the Food for Progress Program underway and that the local currency lending program, section 1111 is off to a good start, as well.

The Congressman's bill goes to the uses of these latter funds. We are not in complete agreement on the specifics in that bill. But we worked with the Congressman in late 1985—in laborious detail on a number of issues—and we're hoping we can do the same on this bill, the microenterprise bill. As I say, I am pleased to be able to tell the committee that we've had a very good start in getting the guidance done. We probably didn't set the Guiness world record, or even the middle atlantic record, in getting the five agencies agreed on anything, but we sent the section 106/108 guidance to the field in August. And, because we have a very effective and energetic team in Tunisia, within 40 days, they were able to put the first 108 program in operation. That money is now in the bank and loan requests are being received. With regard to this year, I think we're off to a very good start. We have approximately $34 million committed to this program already. Our target for the full year would bring us to about $82 million, 10 percent of the aggregate sales

worldwide. We are on track so far this year, proportionate to the number of sales contracts that have been signed. Specifically, we've signed $322 million worth of title I sales contracts to date and we have approximately $34 million worth of 108 reservations of funds in these contracts. So I think we're doing quite well.

I'm hopeful that we can work with the committee on the 108 side of the microenterprise bill. I think overall there's lots of room to work together on this. And I'm hopeful that as we go to markup and as the bill works its way through that we can work out this particular side of it.

Thank you.

Chairman LELAND. Let me thank you, all three of you, for your testimony.

Gentlemen, these questions are for all of you, and each of you may respond as you deem it necessary.

As you are aware, Congressman Gilman's bill, H.R. 1032 would direct A.I.D. to use local currency generated by the sale of U.S. food commodities to support microenterprise credit projects. Does the Agency support the concept of using local currencies for this purpose; and could you identify any other local currencies that could be used apart from section 108?

Mr. BRENNAN. Mr. Chairman, the Agency certainly does support the concept of the use of local currencies for these purposes. In addition to section 108, of course, there are local currency generations from the ESF accounts, as well as from other of the Public Law 480 accounts. I'll ask Jim to identify some of those.

Mr. O'MEARA. Yes. Mr. Chairman, as I mentioned a moment ago, we have already signed up roughly $34 million worth of 108 programs under the title I sales agreement.

These programs, we anticipate, will largely deal with banks. As to how much will go to microenterprises, we have no idea at this point, to be quite honest. We have $7 million going into Jamaica, $4.8 going into Costa Rica, $1.2 million going into Sri Lanka. We already have $1 million in Tunisia and $10 million each planned for Indonesia and Morocco. We are not quite sure at this point who is going to be the ultimate beneficiaries. We know that the governments have agreed to reserve the money for this type of activity and technically microenterprises might be in line for some of this.

I would be misleading you to suggest that that has been the major focus thus far.

In fact, the direction has been somewhat the opposite.

In addition to the 108 moneys which should amount to $82 million, there are other sources. For example, there are regular self-help moneys which are generated under title I sales, in section 106. We are trying to reach a target of 15 additional points, 15 percentage points on top of the 10 percent minimum for 108, which would amount, in a $1-billion program, to $150 million worth of local currency that might be used for private sector lending.

As to the amount that would go to microenterprises, we couldn't estimate. There are also generations that come out of ESF and the CIP portfolio as well.

Chairman LELAND. It has come to our attention that A.I.D. has reservations about H.R. 1032. Perhaps I heard you incorrectly Mr.

Brennan when you first gave your testimony, but it sounded to me like a blanket endorsement of H.R. 1032.

As I understand it, I think you have some reservations about the administrative burden that the eligibility requirements would impose. I assume you are referring to the sections of the bill which require special emphasis be placed on providing credit to the poor, to women and to very small enterprises.

Are you indicating that the Agency is unable to meet these objectives for credit programs?

Mr. BRENNAN. Mr. Chairman, what I indicated in my opening statement briefly was that the Agency fully endorses the purposes of the legislation which is introduced by Congressman Gilman, with the purpose of directing credit, economic and productive credit, to the poor and as far down the scale as both we and our intermediaries and those who work with us can do it effectively.

In principle, we strongly support the expansion of rural credit and this indeed has become a much larger part of the A.I.D. program. That includes credit for small enterprises as well. We are currently supporting microenterprise credit programs in a number of countries.

For example, we recently did a review of credit projects. Most of these are rural credit and many of them are directed to small firms. We——

Mr. GILMAN. Well, if the gentleman would yield——

Mr. BRENNAN. Yes, Mr. Chairman.

Mr. GILMAN. Microenterprise certainly isn't limited to rural credit. And we're talking about much of it in the urban area.

I hope you're not just drawing me an analogy that this is a rural credit program.

Mr. BRENNAN. No, I'm not. I'd like to make the distinction. I agree with you, Congressman. Most of our experience has been in rural credit because indeed the Agency's efforts have been directed primarily to the rural sector. That is principally where the poor are, and our legislation has directed us almost entirely toward the rural sector.

Mr. GILMAN. Really, we haven't done very much in urban credit small enterprises.

Mr. BRENNAN. I think that's true. I think that is correct.

Mr. GILMAN. Thank you.

Mr. O'MEARA. Mr. Gilman, if I might add something to that. I think that the specific provision that is giving us a little bit of difficulty right now in the bill is the 65 percent requirement of 108 uses for microenterprises. I think our experience, as I tried to indicate a moment ago, our experience to date is that the governments are generally receptive if they can see something in it for them selves. That's just human nature.

I think what has been involved thus far is that we have had to do a little bit of hard sell on the 108 program. I'll be very frank about that. Our biggest title I client isn't interested. Egypt, for example, wasn't interested in the 108 program. We also had a cable in over the weekend from Pakistan. The mission there simply was unable to persuade the Pakistan Government to get into this thing. There is a very logical reason for this. In fact, when we were doing the bill 18 months ago, we pointed out that the governments in-

volved have come to be dependent on the self-help money, as they call it, the local currency, that's used to support their budgets * * * their health and education and other budgets.

This basically takes money out of that sector, out of that activity, and puts it into the private sector. And in many instances they don't want to do that. They are more likely to do a 108 program if it's left wide open, if they can see a way that 108 can tie into their other development aims. To the extent that that can be done, we probably can sign up 108 programs. But to put a microenterprise earmark of 65 percent on this program, I think, the net result would be that we'll have a lower total percentage of 108 programs.

As you recall, we have two waivers, two specific waivers, on the 108 program. What'll happen if we have a requirement that high: it'll drive down the total percentage and I don't think we'll meet our joint objectives.

Mr. GILMAN. If the gentleman would yield, Mr. O'Meara, I recognize the criticism that you have raised. You have raised it with us previous to today's hearing.

What we're talking about, Mr. Chairman, is the 108 program has some problems in that many of the countries have not accepted it. And maybe we should be doing a better selling job on the 108 program itself.

But I want to again re-emphasize that we're only talking in this bill of the 10 percent of the whole 108 program and then 65 percent of the 10 percent which would be allocated for microenterprise.

Tell me, what are we talking about in dollars?

Mr. O'MEARA. Well, if we're talking about 10 percent for 108 programs, the way the law is written now, it's 10 percent of the total title I sales aggregate world wide. The amount of money being spent by the Federal Government this year on title I for commodities is about $834 million. So 10 percent of that would be about $85 million, roughly.

So if you mean 65 percent of that 85, I would come up with about $50 million.

Mr. GILMAN. So we're talking about a $50 million program here worldwide?

Mr. O'MEARA. That's correct.

Mr. GILMAN. Do you feel that that is too much to put into a microenterprise endeavor?

Mr. O'MEARA. Well, I can only base my comments on the response we get from missions. And we had a meeting out in Annapolis about a month ago and the people who came in asked some very logical questions about the 108 program. The idea was to sell 108, to push them. And we had a situation where, and I won't mention the country, the purchasing agent from a country came in and said,"You know, when we signed this agreement, our arms were being twisted to sign up a 108 agreement." And they complained over it at the Department of Agriculture that there was an element of hard sell involved in it. In point of fact there may have been.

Mr. GILMAN. How many potential clients are out there? How many potential clients——

Mr. O'MEARA. Twenty nine.

Mr. GILMAN. Twenty nine?

Mr. O'MEARA. Twenty nine.

Mr. GILMAN. For $50 million?

Little less than $2 million for each client state.

They tell me that the Grameen Bank is moving $1 million a month at the present time for microenterprise.

Chairman LELAND. Would you yield?

Mr. GILMAN. I'd be pleased to yield.

Chairman LELAND. You didn't mean to use client state, did you?

Mr. GILMAN. Well, beneficiary state or whatever. I'm sorry if I used the improper term.

Mr. O'MEARA. Mr. Gilman, I think the number is a little bit misleading. We have 29 title I countries worldwide. But Egypt for example this year, the level that they're getting is $185 million out of the total of $834 million. As I mentioned before, Bangladesh is up for $50 million this year, $60 million next year, so we have a couple of major countries that will not be participating.

Mr. GILMAN. When you talked about Egypt for example, we have several billions in the pipeline that we haven't even expended yet, and here we are talking about less than $2 million for a country, to help improve the private sector, the small businessman endeavors and try to help them raise themselves by the bootstraps. I'm in total sympathy. I think Mr. Brennan's earlier comment that we see the value of the bill is not to be understated.

I think the problem is actually getting countries to sign agreements. If we can't get them to sign the agreement that they go somewhere else for the food, and we lose the sales.

Mr. GILMAN. You mentioned the other day what I thought was an appropriate incentive, that on the repayment end, if they have agreed to become part of it, you give them some benefit and some incentive, providing they——

Mr. O'MEARA. We're giving some thought to it. What we want to do is accommodate the spirit of your bill, in other words, find some way to demonstrate our basic agreement—that's what I was hoping we could do a little earlier, maybe talk about specifics, get together and work out how this can be done. Of course, A.I.D. can't do it alone in this case. We're one of five members of the DCC. We have to get agreements from the other members who deal with food aid.

Mr. GILMAN. Who else do we need agreements from?

Mr. O'MEARA. OMB, State Department, Treasury, USDA. Just a few.

I think you're beginning to grasp the dimensions of the problem here.

Mr. GILMAN. All right. We'll be pleased to work along with you. OMB may be a problem for all of us.

Mr. BRENNAN. Mr. Chairman, Mr. Farbman has a few comments on the questions that we've just talked about.

Chairman LELAND. I'm sorry.

Mr. GILMAN. Mr. Farbman has a few comments on the questions that we've just talked about, if we may.

Chairman LELAND. Oh, sure. Jump right in.

Mr. FARBMAN. If I may just address the original question about what were A.I.D.'s particular objections. Jim O'Meara has described the administrative side, which relates to the financing mechanism, section 108. But in addition to this, as some of my com-

ments were pointing toward earlier today, this notion of restricting access to the resource, to enterprises of four and fewer, seems in our experience not to be a useful constraint, because you will find many poor people who are working in enterprises that are larger than four. Also, not every proprietor of a business of four and under is poor, and not every proprietor of a business larger is wealthy. That goes for the employees as well. It is our experience that a more holistic approach to a village, a barrio, or a group which is independent of that kind of a sharp cutoff, tends to be more useful to us in actually administering the project.

The means testing equivalent of restricting all the assistance to the poorest 20 percent or to persons with incomes below some particular per capita income standard, we find not only difficult to administer but, where one would even try to do something like that, counter-productive. Furthermore, if we were to restrict it that way we would be dealing with very different income levels across the many different countries we work in. Some title I countries are much better off than other title I countries. If you are trying to focus on the poorest, you still have to recognize it's a relative concept. Each country has its poor poor.

Mr. GILMAN. If the gentleman would yield again, what we are trying to do, of course, is to keep the thrust of this whole proposal to the very smallest enterprises that may be out there.

And when we start talking about employees of 25 or less we're starting to get into larger businesses, particularly in the developing nations. And if we can keep it to the smaller enterprises, I think that is something we all are interested in. We don't have our feet in concrete on any number, but I think we should be cautious so we don't get spreading out into too large an enterprise and losing the effectiveness of what we're trying to do, and that's to help the very small entrepreneur.

Mr. FARBMAN. I totally agree. Yet there are extremes in both directions and while I'm not by any means advocating that we go up to 25 or more, I think that the restriction to four and fewer may not be as flexible as would be best for the population we want to work with.

Mr. GILMAN. We'll be pleased to work with you in that vein providing we all keep our eye on the objective of trying to make certain the very small entrepreneur is helped.

Is there any other objection that you have?

Mr. FARBMAN. No, no. That was the only point.

Mr. GILMAN. Then do I understand, Mr. Chairman, if the gentleman would yield further, that the two major objections at this point to our legislation is that you object to the earmarking of the 65 percent, would like to see something less, or an incentive to make certain that people take advantage of the 108 program. Am I correct in that analysis?

Mr. O'MEARA. Mr. Gilman, basically that's correct. I think what we could talk about is an alternative: if you gave us a target, for example, or if we would have report language, if it weren't a binding requirement. Because that's where we run into the problem. In other words, the idea is to tell our people who are negotiating these contracts that this is what we want. But if we tell them that they

won't get the sales contract if they can't produce the percentage, then we run into problems.

Mr. GILMAN. As long as we can come up with a workable incentive, I think we would all be in agreement. But providing it's a practical, workable incentive and not just some language that's going to gather dust and the whole program fold.

The other major objection as I understand it is the one you just raised.

Mr. FARBMAN. Yes. Characterizes flexibility in general in the targeting, the institutions, the people, the income levels and so on.

Mr. GILMAN. The income levels and the numbers as long as we can still keep it into the small area, again, I think we can find some accommodation between your Agency and the proponents of the bill.

Thank you, Mr. Chairman.

Chairman LELAND. Thank you. Let me just ask you one final question. And again, we are going to keep the record open for further questions that we might ask.

We've heard a lot about indigenous nongovernmental entities and the roles that they can play in this important effort to assist business people in developing countries.

Is it true that A.I.D. is concerned about the primary emphasis that Mr. Gilman's bill has placed on indigenous NGO's? Do you have some kind of objection there? Mr. Farbman, you suggested that you agreed with the three previous speakers on the first panel, that indigenous NGO's do indeed play an invaluable role, and that the U.S. NGO's should provide them with the kind of experience and expertise that they have.

Is there a problem with A.I.D. and the emphasis that Mr. Gilman's bill places on the indigenous NGO's?

Mr. FARBMAN. No, there isn't a fundamental problem with that. I think the definition in section 108 of intermediary credit institutions or intermediary institutions is very broadly written and encompasses all of the various types, from nonformal banks to other kinds of community development oriented institutions. It includes possibly the U.S. PVO's, though I think I noted in the original version of H.R. 1032 that there wasn't an explicit reference to the use of U.S. PVO's, that it targeted local NGO's. And to the extent that we believe that the U.S. PVO's have important technology transfer capabilities in this area for the assistance technologies, we would certainly want to make sure that it was interpreted to include them as they seem to be one of the principal resources.

Chairman LELAND. One final question, Mr. Brennan, and all of you, if you'd like to respond.

What are the greatest successes and the greatest problems that A.I.D. has encountered in its experience with microenterprise credit?

Mr. BRENNAN. Mr. Chairman, I'd like to respond to that for a moment.

In the review that we did in 1985, we screened some 80 projects involving credit. A lot of those involved small loans, including for small enterprise.

Of the 80 projects reviewed, credit was really important in 50 of them. There were 31 that we characterized as successful or partial-

ly successful, and 19 that we listed as failures. The report indicated that appropriate technology was a factor in 20 of those successes.

Cooperatives did not differ significantly from commercial banks in the rate of success. Eight of the successful or partially successful projects went to farmers and nonfarmers alike, although most were for farmers only. Bias toward lending to large farmers was not a factor.

So there is some record on that. I'd like Mike to add to it.

Mr. FARBMAN. I would characterize the greatest successes that we've had in our program on microenterprise as those projects that have been able to grow and spread. There isn't any greater accollade available for a project than the fact that it spreads in some important way. For instances, you heard a presentation by the earlier witness, Mr. Lluberes. The project that he is now in charge of, the ADEMI project, we often think of as a second generation PISCES project. What that project very intelligently did was see where some of the problems in our earlier demonstration projects were created: there were bottlenecks in disbursement of credit, there were very cumbersome procedures in the institution we were working through, and, while I hope I'm not putting words into Mr. Lluberes' mouth that he wouldn't say, the fact was that there was a substantial amount of learning of what not to do through an earlier project which he captured to his benefit in the ADEMI project. It is now in a process of spreading. Being able to learn and replicate has been important.

This new project I described to you in Kenya, which is trying to spread amongst the NGO's in a very broad fashion the lessons that have been learned through earlier PISCES projects in that country and other intelligence that we've built up over the years, is evidence of the fact that these kinds of projects can work. For the most part they are being built around a mix of training for the institutions themselves and direct assistance to the entrepreneurs involving both credit and technical support.

I would characterize the successes in that fashion. I would have to say some of our most abject failures have been in cases where the institutional structures have been the weakest, and many of those happen to be on the African Continent. We have not taken the time and had the patience to invest as heavily as we have to do to create that institutional infrastructure which is the sine qua non of successfully being able to distribute the resources, to supervise a credit program, to capacitate people and producers so that they can be more productive and sustainably continue to earn higher incomes.

Where we haven't had that kind of an institutional focus or we have not succeeded in trying to carry it out, has been where our projects have been the weakest.

Chairman LELAND. Do you have any plans to try to work for some successes there, and have you determined where you're going to find the patience to do so?

Mr. FARBMAN. Do I have to answer that?

Chairman LELAND. No, no.

Mr. BRENNAN. Mr. Chairman.

Chairman LELAND. Mr. Brennan.

Mr. BRENNAN. I have one comment, please. Mr. Gilman, we were asked the question whether A.I.D. was concerned over the level, the $50 million level that we were talking about. I would emphasize our concern is not with that level at all. It's with the section 108 account and the use of the account rather than with the level of $50 million or whatever the figure turns out to be for microcredit or microenterprise.

Mr. GILMAN. Well, if the gentleman would yield, you had mentioned that because there was an earmarking here, it was discouraging some of the people to utilize 108, or rather, some of the states to use 108. But it hasn't been a binding requirement so far and so far there are no credit projects under 108.

Mr. BRENNAN. Jim, would you please?

Mr. O'MEARA. As I mentioned, Mr. Gilman, we don't have all of the details on all of the projects. What we have, I can go through it specifically, what we have in Tunisia, we have $1 million deposited in two banks that are available for private sector lending that meets the profile in the bill. There are a number of borrowers lining up there.

My guess is that when we ask for an accounting we won't find too many microenterprises in it. You're correct in that regard.

In Sri Lanka it's, the money has also been put aside, the same type of arrangement.

In Jamaica we may have a different situation. We have $7 million and some of the claimants on that that are lining up may be involved in some way in small-enterprise credit, nonfarm credit.

Mr. GILMAN. But the point I am trying to make, as you can understand, Mr. O'Meara, is right now we're not setting any earmarking or bonding amounts, yet we still don't have any takers down there.

Mr. O'MEARA. That's correct.

Mr. GILMAN. For that reason, I think we should be trying to put a little more teeth in the program and maybe some incentives.

Mr. O'MEARA. Well, there are a few alternatives, as I said. We could discuss this. For example, the problem that we've been having in overcoming the reluctance on the part of the government to engage in this. They don't see it in their own self interest in many cases.

Mr. GILMAN. So that if they don't see it either, we put an incentive or we earmark some mandate or do both.

Mr. O'MEARA. What's involved is this: if we were using section 106, we'd be dealing with an entirely different critter. I mean we'd be dealing with money that they basically have more control over. It's their money that we jointly program. Local currency is local currency, and they could use it that way. I think there are some alternatives that we could explore.

Mr. GILMAN. At least explore those and I think that certainly something is needed to try to get us more involved. Just one or two questions. I know the hour is late.

What is A.I.D.'s current worldwide program level for microenterprise lending?

Mr. BRENNAN. I'm not sure we can give you a figure for that, Mr. Gilman. We have——

Mr. GILMAN. Can you give us an estimate?

Mr. BRENNAN. I'm not even sure I can give you an estimate. We have sent a cable out to all A.I.D. missions asking them to separate out from their projects and activities what they are doing in the way of microenterprise credit.

Mr. GILMAN. At this point you really don't know?

Mr. BRENNAN. I don't know.

Mr. GILMAN. Mr. Chairman, would you provide that for our committee——

Chairman LELAND. The Chair will keep the record open without objection for the purpose of receiving the response to the question from the Agency.

Mr. GILMAN. Thank you, Mr. Chairman.

What would you feel would be a reasonable fiscal year 1988 and fiscal year 1989 target for scaling up our activity in microenterprise?

Mr. BRENNAN. Without knowing what the current figure is, Mr. Gilman?

Mr. GILMAN. Well, let's assume that there is some activity out there. What do you think would be reasonable?

Mr. BRENNAN. I'm sure there is some activity.

Mr. GILMAN. What would you like to see out there by way of microenterprise activity for 1988?

Mr. BRENNAN. I think the figure you mentioned earlier of $50 million as a floor certainly should not represent an issue, and if we were to take that up——

Mr. GILMAN. You would consider that to be reasonable?

Mr. BRENNAN. Yes, I would.

Mr. GILMAN. Well, I think then, I would just like to point out to, I believe it's Mr. Farbman, that when you mentioned the $250 income level I think you are referring to Mr. Feighan's bill, not to our bill because in our bill we just say it should go to the poorest of the poor. We don't specify any income level. I ask you, please, don't mix our bill up with Mr. Feighan's bill. We do support both bills; I'm a cosponsor of both bills. But don't mix up the criteria we have in our bill with the Feighan bill.

Mr. FARBMAN. If I did so I apologize. I thought I was referring to language in your bill in which the lower two deciles, the lower 20 percent, were specified, but I may be mistaken; I was talking about the two bills together and I thought for yours I was making it clear——

Chairman LELAND. The Chair would like to clarify his position on the Feighan bill. I still have very strong reservations about the Feighan bill.

Mr. GILMAN. Thank you, Mr. Chairman.

Chairman LELAND. Let me thank all of you for participating. Let me thank the Agency for its continued efforts to do what it can to support the efforts of the Select Committee on Hunger. You have always been very cooperative and very helpful to us.

Thank you very much for appearing before us on this particular issue.

[Whereupon, at 12:41 p.m. the hearing adjourned.]

[Material submitted for inclusion in the record follows:]

I

100TH CONGRESS
1ST SESSION

H. R. 1032

To amend the Agricultural Trade Development and Assistance Act of 1954 to establish a bilateral program to furnish credit assistance for micro-enterprises owned by the poorest people in developing countries, and to encourage multilateral development banks to establish micro-enterprise credit programs.

IN THE HOUSE OF REPRESENTATIVES

FEBRUARY 5, 1987

Mr. GILMAN (for himself, Mr. FAZIO, Mr. LELAND, Mr. BEREUTER, Mr. HALL of Ohio, Mr. ACKERMAN, Mr. DORGAN of North Dakota, and Mrs. ROUKEMA) introduced the following bill; which was referred jointly to the Committees on Foreign Affairs and Banking, Finance and Urban Affairs

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A BILL

To amend the Agricultural Trade Development and Assistance Act of 1954 to establish a bilateral program to furnish credit assistance for micro-enterprises owned by the poorest people in developing countries, and to encourage multilateral development banks to establish micro-enterprise credit programs.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. SHORT TITLE.

This Act may be cited as the "Comprehensive Micro-Enterprise Credit Promotion Act of 1987".

SEC. 2. FINDINGS.

The Congress finds that—

(1) numerous micro-enterprises owned by poor people comprise the informal sector economy in developing countries;

(2) micro-enterprises represent an important source of private sector commercial activity in developing countries and provide significant benefits for the poorest people in those countries, particularly women;

(3) micro-enterprises are small operations which typically have 4 or fewer workers, are located in both urban and rural areas, and engage in activities such as processing and transporting food, servicing farm machinery, light manufacturing, tailoring, and retailing;

(4) micro-entrepreneurs who have been able to obtain small loans have demonstrated their ability to repay those loans and have achieved significant improvements in their living standards and made significant contributions to the local economy;

(5) formal financial institutions in developing countries, however, have not recognized that, although micro-enterprises owned by poor people may lack collateral for loans and may not be able to comply with all the traditional loan formalities, they can nevertheless be financially viable; and

(6) as a result, micro-enterprises owned by poor people have had little access to formal sources of credit.

SEC. 3. BILATERAL MICRO-ENTERPRISE CREDIT PROGRAM.

Section 108 of the Agricultural Trade Development and Assistance Act of 1954 (7 U.S.C. 1708) is amended by adding at the end thereof the following new subsection:

"(j) CREDIT FOR MICRO-ENTERPRISES.—

"(1) IN GENERAL.—The President shall establish a program under this section pursuant to which foreign currencies generated from the sale of United States agricultural commodities under this section are used by financial intermediaries in developing countries to provide loans, and related technical assistance and training, for micro-enterprises, as follows:

"(A) Except as provided in subparagraph (B), the foreign currencies shall be loaned to financial intermediaries for use by them in extending credit to micro-enterprises in order to provide the micro-enterprises with financial resources for working capital, the acquisition of equipment and other supplies, and payment of other expenses of the enterprise.

"(B) In addition, foreign currencies may be provided to a financial intermediary on a grant

basis, or on a loan basis at a lower rate of interest than would otherwise be charged—

"(i) for the startup costs incurred by an indigenous nongovernmental organization or other organization in becoming a financial intermediary and for other institutional development expenses of the intermediary which are related to the establishment and initial operation of its micro-enterprise credit activities; and

"(ii) for expenses incurred by the financial intermediary in providing training and technical assistance for micro-enterprises in order to enable them to obtain and utilize credit under this subsection.

"(2) PROGRAM TO BE ADMINISTERED BY AID.—The program established pursuant to this subsection shall be administered by the Agency for International Development.

"(3) GUIDELINES.—The Administrator of the Agency for International Development shall issue guidelines for financial intermediaries providing loans (and related technical assistance and training) for micro-enterprises pursuant to this subsection. These guidelines shall seek to ensure that—

"(A) financial intermediaries consult with potential recipients of credit, and include their views to the greatest extent possible, in the designing of micro-enterprise credit projects under this subsection to ensure that the projects are responsive to the credit needs of the recipients;

"(B) women are major recipients of loans (and related technical assistance and training);

"(C) financial intermediaries minimize or remove obstacles to credit for micro-enterprises, such as collateral and literacy requirements; and

"(D) financial intermediaries, in all appropriate instances, encourage micro-enterprises to participate with other micro-enterprises in solidarity groups as a means of fostering improved loan repayment rates.

"(4) USE OF AND SUPPORT FOR INDIGENOUS NONGOVERNMENTAL ORGANIZATIONS.—The Agency for International Development—

"(A) in selecting financial intermediaries to participate in the program established pursuant to this subsection, shall place primary emphasis on indigenous nongovernmental organizations; and

"(B) in carrying out this subsection and other authorities, shall seek to develop the long-term

capacity of indigenous nongovernmental organizations to provide credit for micro-enterprises.

"(5) FUNDING LEVELS.—Of the foreign currencies accruing for use under this section pursuant to sales agreements entered into for each of the fiscal years 1988 through 1990, an amount equivalent to not less than 65 percent of the value of all sales of agricultural commodities for foreign currency for use under this section for that fiscal year shall be used in accordance with this subsection for loans (and related technical assistance and training) for micro-enterprises.

"(6) USE OF LOAN REPAYMENTS.—Notwithstanding subsection (d), currencies repaid by financial intermediaries under this subsection shall be available to and used by the Agency for International Development to make available loans (and related technical assistance and training) for micro-enterprises in accordance with this subsection.

"(7) APPLICABILITY OF OTHER PROVISIONS OF SECTION.—Subsections (a) through (c) and subsections (e) through (i) of this section apply with respect to the micro-enterprise credit program established pursuant to this subsection except to the extent that they are inconsistent with the provisions of this subsection.

"(8) DEFINITIONS.—The following definitions apply for purposes of this subsection:

"(A) MICRO-ENTERPRISES.—The term 'micro-enterprises' means small enterprises—

"(i) which are single proprietorships, small-group enterprises, or cooperatives;

"(ii) which typically have four or fewer workers;

"(iii) which operate within the informal sector economy of a developing country, in either urban or rural areas;

"(iv) which are wholly owned by the poorest people in the developing country; and

"(v) which lack access to credit at reasonable cost.

"(B) INDIGENOUS NONGOVERNMENTAL ORGANIZATIONS.—The term 'indigenous nongovernmental organizations'—

"(i) means indigenous, local groups in a developing country—

"(I) which work independently of government and official development assistance agencies; and

"(II) which represent and work with urban and rural poor communities to promote substantive changes in the conditions of poverty, deprivation, and oppression through empowerment and local control; and

"(ii) includes cooperatives, credit unions, trade unions, women's groups, other intermediaries, and other organizations, which are private, nonprofit, and indigenous and local.

"(C) POOREST PEOPLE.—The poorest people—

"(i) are those people who do not own productive assets sufficient to permit them to provide readily and completely for their basic human needs, and

"(ii) are primarily people whose annual household income per capita is in the lowest 20 percent of households in that country.".

SEC. 4. MICRO-ENTERPRISE CREDIT ACTIVITIES OF MULTILATERAL DEVELOPMENT BANKS.

(a) MICRO-ENTERPRISE CREDIT FUNDS.—

(1) PROPOSALS FOR ESTABLISHMENT.—The Secretary of the Treasury shall instruct the United

States Executive Director of the Asian Development Bank, the United States Executive Director of the African Development Bank, and the United States Executive Director of the International Development Association to advocate the establishment within their respective institutions of a Micro-Enterprise Credit Fund, as described in subsection (b).

(2) INTER-AMERICAN DEVELOPMENT BANK.—The Secretary of the Treasury shall instruct the United States Executive Director of the Inter-American Development Bank—

(A) to express the Congress' recognition of and praise for that Bank's efforts to make credit available to small-scale enterprises through its Program for the Financing of Small Projects; and

(B) to propose that the Bank expand its efforts in order to make credit available to micro-enterprises, consistent with the guidelines contained in subsection (b), either through its Program for the Financing of Small Projects or through a Micro-Enterprise Credit Fund.

(b) NATURE OF FUND TO BE PROPOSED.—

(1) IN GENERAL.—The purpose of the Fund should be to provide capital resources to indigenous nongovernmental organizations and other financial in-

termediaries in the countries eligible to borrow from the Bank to enable those financial intermediaries to provide credit assistance to micro-enterprises, particularly in cases where credit assistance is not currently available to micro-enterprises.

(2) IDA FUNDING LEVEL.—In the case of the Fund in the International Development Association, $75,000,000 should be allocated to the Fund initially, with subsequent allocations of whatever additional amounts may be necessary to allow the Fund to maintain an annual funding level of $75,000,000 for micro-enterprise assistance. The Secretary of the Treasury shall instruct the United States Executive Director to the Association to work to ensure that all possible steps are taken by the Association to expend $75,000,000 from the Fund each year for micro-enterprise assistance. If less than that amount is expended from the Fund for micro-enterprise assistance in any year, the annual report of the National Advisory Council on International Monetary and Financial Policies shall include an explanation of why that shortfall occurred.

(3) WOMEN AS RECIPIENTS OF CREDIT.—The Fund should place particular attention on making

credit assistance available to micro-enterprises owned by women.

(4) PRIMARY EMPHASIS ON INDIGENOUS NONGOVERNMENTAL ORGANIZATIONS AS FINANCIAL INTERMEDIARIES.—The Fund should place primary emphasis on the use of indigenous nongovernmental organizations as financial intermediaries.

(5) CONSULTATION WITH INDIGENOUS NONGOVERNMENTAL ORGANIZATIONS.—During the preparation and implementation of its plans for allocation of amounts from the Fund, the Bank should—

(A) carry out a process of formal consultations with representative officials from the indigenous nongovernmental organization community, and

(B) give major consideration to their views on how best to carry out the micro-enterprise lending program described in this subsection.

(6) MONITORING.—The results of the Fund's activities should be monitored to ensure that assistance from the Fund is being used effectively to assist micro-enterprises and, in particular, that micro-enterprises owned by women are receiving appropriate levels of assistance. Appropriate funding should be available from the Fund for the Bank's administrative expenses

in connection with the monitoring activities. In the case of the International Development Association, up to $1,000,000 should be available each year to fund such monitoring. The Fund should, to the degree possible, engage the services of indigenous nongovernmental organizations on a contract basis to carry out this monitoring.

(7) RESEARCH.—The Fund should engage in research to develop further understanding of the operating environment, the characteristics, and the accomplishments of micro-enterprises and projects that have supported them. Appropriate funding should be available from the Fund for necessary expenses of such research. In the case of the International Development Association, up to $1,000,000 should be available each year to fund such research.

(8) TRANSFER OF FINANCIAL CONTROL TO INSTITUTIONS CONTROLLED BY THE POOREST PEOPLE.—The Fund should have mechanisms to facilitate the transfer, to the maximum degree possible, of financial control of micro-enterprise lending from the Fund to institutions in developing countries controlled by the poorest people, including potential or actual recipients of such lending. Such mechanisms could include, for example, support for credit unions or other

savings institutions that are under local or community control.

(c) NEGOTIATIONS ON CAPITALIZATION OF FUND.—The Secretary of the Treasury shall instruct each of the United States Executive Director specified in subsection (a) to negotiate with the other Executive Directors of their respective institution for the purpose of identifying sources of funding to provide capitalization for the Fund. Such sources might include but should not be limited to United States contributions.

(d) REPORT TO CONGRESS ON EFFORTS.—Not later than 6 months after the date of enactment of this Act, the Secretary of the Treasury shall report to the Committee on Banking, Finance and Urban Affairs of the House of Representatives and the Committee on Foreign Relations of the Senate on the steps taken by each of the United States Executive Directors specified in subsection (a) to advocate the establishment of a Fund in the Bank, on the response of other Executive Directors of the Bank to the proposal, and on the status of the establishment of the Fund.

(e) ADDITIONAL REQUIREMENTS RELATING TO THE WORLD BANK.—The Secretary of the Treasury shall instruct the United States Executive Director of the International Bank for Reconstruction and Development to take the following actions:

(1) Begin discussions immediately with the Bank's Poverty Task Force and other appropriate officials of the Bank and the International Development Association in order—

(A) to facilitate the establishment and operation of the Fund in the Association, and

(B) to enhance the overall commitment of the Bank and the Association to micro-enterprise lending and to collaboration with indigenous nongovernmental organizations in poverty alleviation activities, including lending to micro-enterprises.

(2) Propose that the Bank require that each country which receives a structural adjustment or sectoral loan use a portion of the first such loan, and a portion of subsequent loans if necessary, to establish the necessary reserves for a government program to guarantee loans made by indigenous nongovernmental organizations and other financial intermediaries to micro-enterprises in that country. These programs should not guarantee more than 90 percent of the loan liability in order to ensure that indigenous nongovernmental organizations and other financial intermediaries adopt prudent loan policies in providing credit to micro-enterprises.

(3) Propose that the Bank include a requirement, in all structural adjustment agreements and appropriate sector and project agreements with developing countries, that those countries re-evaluate and take steps to remove barriers to credit for micro-enterprises, such as unreasonably low interest rate ceilings.

(f) ANNUAL REPORTS TO CONGRESS ON MICRO-ENTERPRISE CREDIT ACTIVITIES.—Each annual report to the Congress by the National Advisory Council on International Monetary and Financial Policies shall describe the micro-enterprise credit activities of each Bank, including—

(1) the amount allocated during the previous year, from any micro-enterprise credit fund established by the Bank, to each indigenous nongovernmental organization or other financial intermediary for lending to micro-enterprises,

(2) the results of monitoring activities carried out by the Bank during that year with respect to such lending, and

(3) the number of personnel of the Bank who were engaged during that year in carrying out its micro-enterprise credit program.

(g) DEFINITIONS.—The following definitions apply for purposes of this section:

(1) BANK.—The term "Bank" means the Asian Development Bank, the African Development Bank, the Inter-American Development Bank, the International Bank for Reconstruction and Development, or the International Development Association (as the case may be).

(2) FUND.—The term "Fund" means the Fund referred to in subsection (a)(1) or, in the case of the Inter-American Development Bank, the expanded efforts referred to in subsection (a)(2).

(3) INDIGENOUS NONGOVERNMENTAL ORGANIZATIONS.—The term "indigenous nongovernmental organizations"—

(A) means indigenous, local groups in a developing country—

(i) which work independently of government and official development assistance agencies; and

(ii) which represent and work with urban and rural poor communities to promote substantive changes in the conditions of poverty, deprivation, and oppression through empowerment and local control; and

(B) includes cooperatives, credit unions, trade unions, women's groups, other intermediaries, and

other organizations, which are private, nonprofit, and indigenous and local.

(4) MICRO-ENTERPRISES.—The term "micro-enterprises" means small enterprises—

(A) which are single proprietorships, small-group enterprises, or cooperatives;

(B) which typically have four or fewer workers;

(C) which operate within the informal sector economy of a developing country, in either urban or rural areas;

(D) which are wholly owned by the poorest people in the developing country; and

(E) which lack access to credit at reasonable cost.

(5) POOREST PEOPLE.—The poorest people—

(A) are those people who do not own productive assets sufficient to permit them to provide readily and completely for their basic human needs, and

(B) are primarily people whose annual household income per capita is in the lowest 20 percent of households in that country.

○

Summary of
THE COMPREHENSIVE MICRO-ENTERPRISE CREDIT PROMOTION ACT OF 1987
(H.R. 1032)

Congressman Benjamin Gilman introduced H.R. 1032 on February 5, 1987 with Mr. Leland, Mr. Bereuter, Mr. Hall, Mr. Ackerman, Mr. Dorgan, Mr. Fazio and Mrs. Roukema as original cosponsors. H.R. 1032 proposes both a bilateral and a multilateral approach to helping micro-enterprises.

BILATERAL

The bill will earmark money already available under the Section 108 program of Title I of Food for Peace for small enterprise credit programs in developing nations. The Section 108 program was enacted into law in the 99th Congress to provide funding for private sector activities in developing countries, using local currencies generated by the sale of U.S. food in the recipient nation. The Gilman micro-enterprise bill would make 65% of these private sector funds available specifically for micro-enterprise activities. **If the Section 108 program is used to its fullest capacity, that would equal approximately $55 million.** This money would then be distributed by AID in the form of loans to financial intermediaries in the country who would in turn loan the money to small entrepreneurs.

Special provisions in the bill would ensure that potential recipients are consulted in the design of projects so that lending can be most responsive to the needs of the poorest people; women would be major recipients; indigenous nongovernmental organizations (NGOs) in the recipient countries would be the primary intermediaries for lending to micro-enterprises; and the poorest people, whose incomes are in the lowest 20 percent in the country and who cannot provide for their basic human needs, would be the primary recipients of loans.

MULTILATERAL

The bill also directs U.S. representatives to the multilateral development banks, (the International Development Association of the World Bank, the Inter-American Development Bank, the Asian Development Bank and the African Development Bank) to advocate that each bank set up funds for micro-enterprise credit (or to expand an existing small business credit program, in the case of the Inter-American Bank). The IDA fund would be $75 million, augmented each year by amounts needed to maintain the fund at that level, with $2 million per year made available for monitoring and research of micro-enterprise credit. Use of indigenous NGOs as intermediaries, a focus on women as borrowers, and consultation with NGO representatives during program design are emphasized in the bill. The bill also proposes that the World Bank use small portions of sectoral and structural loans to establish guarantee programs to support lending to micro-enterprises.

Each U.S. Executive Director would report back in six months on the progress of negotiations on setting up the funds, and annual reporting is required on micro-enterprise lending by each bank.

THE FUNDING MECHANISM OF H.R. 1032 (SECTION 108)

BACKROUND:

-- Section 108 was adopted in the Food Security Act of 1985 as a way of directing more aid resources to private sector economic activities in Third World countries. Under Section 108, not less than 10 percent of the aggregate proceeds from Title I, P.L. 480 agreements each year are to be repayed in local currencies to be made available to support private enterprise activities.

-- Those activites can include productive private enterprise investment within the country, facilities for aiding in the use of U.S. agricultural commodities, and private enterprise support of self-help measures and projects.

-- Currently, there are Section 108 agreements with Tunisia (in 1986), Costa Rica, Jamaica and Sri Lanka (in 1987). Others are expected in this fiscal year, including Morocco.

HOW SECTION 108 OPERATES:

-- When a Title I recipient country is signing an agreement to purchase U.S. commodities, it can agree to designate a portion of the commodities for payment in local currencies for use under Section 108. From the time that the food is loaded onto ships in U.S. ports, the country has 120 days to pay its local currency obligation into a special U.S.-owned account in the country.

-- When the funds are in the account, the U.S. can lend local currencies from the account to a financial intermediary, such as a bank, cooperative, indigenous NGO, or other lending institution, which in turn on-lends the money for private sector activities.

-- Beginning 10 years after delivery of the commodities, the recipient country must pay in hard currencies the amount due (with local currencies refunded.) The exchange rate is that in effect on the repayment date, so the U.S. assumes the risk of local currency devaluations.

THE GILMAN PROGRAM:

-- H.R. 1032 designates 65 percent of the amounts available for Section 108 programs in FY 1988-90 for micro-enterprise activities conducted by the poorest people. If the program were used to its fullest capacity, this would equal approximately $55 million.

-- The bill emphasizes primary use of indigenous NGO's as intermediaries, although other types of financial intermediaries could participate. It also stresses the role of women, consultation with recipients in the design of projects, and primary emphasis on the poorest individuals.

-- H.R. 1032 provides for loans by AID to intermediaries for on-lending to micro-enterprises, but it also provides grants or concessional loans for institutional development costs and training and technical assistance for borrowers.

[From the Economist, Oct. 18, 1986]

A lender that gets repaid

The only bank in Bangladesh with well-behaved borrowers is the Grameen (Countryside) Bank. While the government's financial institutions struggle to get their money back from big business, the Grameen Bank's repayment rate is 98%. It selects its clientele carefully: only the very poor can borrow its money. The bank has become a Mecca for development economists, and is being copied around the world—Chicago and Arkansas included.

Poor people cannot borrow from ordinary banks, because they have no assets as collateral. They can borrow from moneylenders, who charge at least 10% a month: before harvest time, the rate can go up to 10% a day. Professor Muhammad Yunus, who teaches economics at Chittagong University, reckoned there was room for a bank which charged poor clients commercial interest rates.

In 1982 the Grameen Bank was established with money from the Bangladesh Bank and the International Fund for Agricultural Development. It now has 250,000 borrowers, which means its funds benefit over a million families. It lends 33m taka ($1m) a month, pays its staff of 4,000 at civil service rates, and makes a profit. It is owned 25% by the government and 75% by its borrowers.

Only people with under half an acre of land, or less than the value of one unirrigated acre in assets, can get loans: half the population qualifies. Borrowers are grouped into teams of five so that they will encourage each other to pay their dues on time. Repayments are made every week, on the ground that small sums are easier to part with than large ones. Grameen Bank customers are encouraged to save, and the bank now has 80m taka in deposits.

The loans get spent on anything from cows, to firecracker production, to cockle-trading. One satisfied borrower told your correspondent that he had borrowed 3,500 takas to buy a rickshaw which would last at least 5 years. If he had rented it at the going rate of 15 takas a day, he would have paid 5,000 takas in one year. Three-quarters of the bank's borrowers are women: the bank's staff say women are better at re-investing their spare cash. Men tend to spend it on drink or new wives.

Grameen provides the venture capital

Grameen Bank offers more than the usual range of bank services. Borrowers can get cheap seeds, seedlings and ducks, lessons in reading and writing, medical help, and advice on family planning. The bank also dabbles in social engineering: borrowers who accept dowry from their son's bride may have their loan recalled.

The government is pleased, the aid donors impressed, and 17 countries have asked the bank to train up teams of village bankers. The only unhappy people are the money lenders. But if the Grameen Bank gets much bigger, it is in danger. It is already a political force: local managers command a loyalty that rivals the authority of the traditional village leaders. The more powerful it is, the harder it will be for the government to resist taking it over. Professor Yunus has tried to hedge against this by making the borrowers the majority shareholders, but military governments do not always observe the niceties of ownership.

Takeover by the government would destroy Grameen Bank as surely as it destroyed the co-operative movement. The co-operatives, which started among rickshaw pullers in Comilla in the 1960s, were the developers' model for the decade. After independence, the government took them over. They are now as flabby and corrupt as the rest of Bangladesh's bureaucracy.

[From South, December 1986]

BUSINESS & FINANCE

BANKING ON THE PEOPLE

Grameen Bank demands honesty, not collateral, from its borrowers – and the strategy is working

▲ **Giving women the power:** *landless widow receiving US$140 Grameen loan, Bangladesh*

The bank's customers are mainly beggars, destitute widows, divorcees and landless; the directors include a rickshaw driver, a village shopkeeper and two former domestic workers. Richer farmers are excluded by Grameen Bank's small army of bicycle bankers, who have succeeded in creating a social movement as much as a credit scheme in rural Bangladesh. It is an innovation that is working – 97 per cent of loans are repaid on time.

In Bangladesh, which receives US$1.3-billion a year in foreign aid, this state-owned institution is a rarity, with its programmes actually reaching the village poor. Its success is such that similar schemes have been introduced in Indonesia, Kenya, Nepal and – starting this year – Malaysia.

Grameen has come a long way since 1976, when the first experimental project was set up at Jobra University, near Chittagong. Today, it has branches in five districts covering 4,192 villages and 191,000 borrowers – making it by far the most effective credit institution for Bangladesh's rural poor.

The work of Grameen's bicycle bankers is exemplified in the villages of Rangpur, in the far northwest – one of the poorest areas of a very poor country.

In Rohola village, Laily Begum and four other women recently formed a borrowers' group that was recognised by the bank after a stiff oral test about its rules. With a loan of just US$15, Laily can buy paddy to husk and a goat to fatten.

This represents a distinct improvement for Laily and her family. At present, she works 13 hours a day at the house of a local landlord, husking paddy with a wooden mallet. Her pay is breakfast, which must keep her going all day, plus half a kilogramme of broken rice when she leaves at night. Her husband Mizan works as a day labourer.

In the months before the harvest there is little work and hunger is common among the poor. To feed his three children, Mizan borrows about US$3 from a landlord moneylender, which he must repay after the harvest in one *maund* of paddy worth US$4.50. This represents an interest rate of 50 per cent over six weeks; now that Laily has joined Grameen, her family can expect to keep the rewards of their labours.

In Digdari village, a Grameen centre of five groups has been working for the past three years, under the direction of the Polushbari branch. In the centre hut – a tiny jute and bamboo structure with a tin roof – women hand in their weekly instalments, countersign the record book, and discuss and approve loan proposals.

They built the hut from their own funds, run the centre school themselves, and provide most of the income for their families. Although all are illiterate – bank workers taught them to sign their names – their children go to primary school.

"Poor people believe what the mullahs tell them; that God put them on earth to labour; that education is only for the rich. Through the centre school we build up their minds to enable them to go to primary school," Polushbari area manager Ramzam Ali explains.

When Grameen opens a branch, it focuses first on beggars, destitute widows, divorcees and the landless. Any household with more than half an acre of land, or assets worth more than the going price for an acre, is excluded from membership.

In Bangladesh, 45 per cent of the rural population – about 6-million households – is completely landless, or owns less than half an acre. Between them, they own only 2.7 per cent of the land

Barefoot money management

Everything in Bangladesh is corrupt. Only Grameen Bank is clean and honest. The basis of Grameen is this morality," said a branch manager. And even the bank's critics do not accuse it of corruption.

"Trainee managers and bank assistants may not be committed when they come to see us. But they are won over after a few months. They see daily, face to face, how they change people's lives," said S A Daiyan, Rangpur zonal manager.

Grameen recruits its managers from among MA graduates. The drop-out rate is high. "Some trainees have this vision of a bank with revolving glass doors, others want to stay close to the Dhaka power brokers," said Muzammal Huq.

It is not surprising these aspirant tycoons do not last long. After two days of lectures at Grameen's training institute, trainees go straight out to live in the villages. They start work at 6am with centre meetings, and get acquainted with the community and the banking procedure. A trainee covers an area of about 38 square kilometres on foot or bicycle. Few branch offices close before 7pm.

"Take the bank to the people, not the people to the bank," is the basic rule. Both its success in identifying the poorest and the supervision of loan use and repayment depends on close contact with the villagers in their own homes.

Grameen Bank workers may not accept any gift from the villagers and they keep a polite distance from the mullahs and landlords.

Ramzam Ali recalls opening the Sathibari branch in Rangpur in 1982. It took five days to find an empty hut. He bought a platform bed, half of which became his desk and the other half his bed. "There were 33 villages. The first month I walked, stopping to talk whenever I saw a group working in the fields. Then head office sent a bicycle."

He encountered strong resistance from potential bank customers at first, but persistence – and the example of a centre in a neighbouring area – led to the recognition of his first group after two months. In 18 months he had 306 groups in operation and had disbursed US$45,454

area, according to the 1986 agricultural census. The rural elite, about 5 per cent of the population, owns 26 per cent of the land and keeps a stranglehold on trade and local government.

Nearly 70 per cent of Grameen's borrowers are poor women, doubly oppressed. In villages that have access to the bank, women are no longer inferior to men and the poor are no longer powerless.

"For circumcision or marrying our children, our husbands discuss with us first. Before we joined Grameen, they never even asked. Now we have the power. My husband knows if he beats me the money will stop," Maisuna says.

Maisuna used to work as a servant for a local landlord, earning the standard rate of one meal and half a kilogramme of broken rice a day. Four years ago, she joined a Grameen bank group. Her first loan, of US$45, gave her the working capital to buy mustard seed for crushing. With her second she bought a new crushing machine; with the third and fourth she bought a pair of bullocks to pull it. She has repaid three loans and is up to date on payments on the fourth.

In another district, recounts Grameen founder and managing director Muhammad Yunus, a powerful landlord beat up a poor rickshaw driver – a standard way of resolving disputes. But the driver was a Grameen Bank borrower. Grameen groups gathered from nearby villages, surrounded the landlord's house and eventually forced him to make a public apology and pay the driver US$15 compensation.

The cohesion of group and centre lies at the heart of the new power of the rural poor, providing a sense of shared identity and confidence that helps the individual borrower to succeed. Group pressure helps to ensure repayment.

"We don't ask for land or assets. You must keep your word," zone manager S A Daiyan told a village audience. Bank workers make sure they do.

in loans. "That experience taught me there is nothing we can't do," he says.

A recent evaluation by the Bangladesh Institute of Development Studies has pinpointed the management style of Mohammed Yunus as a key factor in the efficiency and honesty of the bank. Employees are paid at the same rate as their counterparts in the commercial banks, and because the bank is expanding, promotion is rapid. Yunus travels around the branches and all 234 branch managers report directly to him once a month. Area managers have considerable autonomy, which keeps morale high. Yunus encourages initiative. Daiyan explains: "If you have an idea, try it, he tells us. If it fails, keep quiet about it. If it works then tell me so that we can try it elsewhere." ■

Halinah Todd

▲ **Unity, work and discipline:** *Grameen workshop in Polashbari*

Grameen Bank gives priority to women in forming centres. "It is not that we are theoretical feminists," says deputy general manager Muzammal Huq. "A banker bets on the best borrowers. Women have proved to have the best repayment rates and, in terms of family development, they make the best use of the profits. A man will often spend his money on himself. The woman spends first on the children's food and clothing, and then on the house."

The emphasis on women helps to achieve other goals as well. Women form the most receptive audience for family planning campaigns – a programme the bank is keen to encourage.

Borrowers do not change their status overnight, Daiyan says. "Profit from the first loan removes the hunger. The second removes the lack of clothing and buys some essentials for the house, like pots and bedding. Only with the third do borrowers begin to accumulate assets, buy a house lot, a cow, a tin roof . . ."

To date, Grameen Bank has reached only 3.2 per cent of the rural poor – and this constitutes its critics' main charge. Since it does succeed in raising incomes – but fails to reach all the poor, even in those villages where centres are established – it creates two classes of poor: those who are gradually improving their lot and those who get steadily poorer, they argue.

"If we reach 10 families, that is plus 10, so long as they don't improve themselves at the expense of the remaining poor," Yunus replies. The bank plans to double in size, from 234 to 500 branches, in the next two years. By 1990, it will have a million landless members, or 17 per cent of the rural poor.

As a government-owned bank, Grameen's policy has been deliberately low-key and non-confrontational. The landless associations, which were planned to link the centre chiefs into area-wide groups, have never been introduced. At the local level, the petty trading, rickshaw driving and livestock fattening that most Grameen loans are funding, pose no threat to the landlords.

Grameen's success has begun to attract attention from politicians. In the May general elections, several candidates in rural areas promised to try to persuade the bank to open a local branch if they were elected, bank workers say. Many union-level chairmen – the lowest level of elected local government – are enthusiastic supporters of the bank, although they are invariably large landlords. The branch operates at union level (15-20 villages) and organises a maximum 1,500 borrowers – a potentially formidable electoral asset. ■

Halinah Todd in Bangladesh

The heart of the system

The local bank centre is the organisational hub of Grameen bank. Potential borrowers form groups of five, who must train for at least seven days before they are recognised as members. Five or six groups meet weekly at a centre and elect a centre chief from their ranks. No group member may receive a loan unless all the other members are repaying regularly. The centre vets each loan proposal before it goes to bank officials. Once approved, disbursement takes just seven days; the cash must be used within the next week. The centre chief and bank officials supervise use.

Repayment is made in 50 weekly instalments, at 16 per cent interest. As soon as a loan is repaid – many borrowers repay in eight or nine months – the member can apply for another, usually bigger, credit. In addition, each member pays a minimum US3c into a group savings fund from which members can borrow for purposes of consumption or for emergencies. ■

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[Excerpt from the Inter-American Development Bank's Small Projects Program]

Making People Creditworthy

A person who qualifies for credit is a person firmly established in his nation's social and economic mainstream. Society has judged him a solid, respected citizen, capable of putting additional resources to productive use. As his country develops, he will produce more, sell more, and earn an even better living.

But millions of people in Latin America never have this chance. Poor, uneducated, they lack the hope and the means to strive for a better future. Progress and national development mean little to them. They do not qualify for credit.

It was for these people that the Inter-American Development Bank established its Program for the Financing of Small Projects. In a nutshell, the Bank lends a maximum of $500,000 to an intermediary organization, such as a cooperative, which then onlends the money to low-income people, and guides them in the production of handicrafts, crops, and other goods.

Dramatic results. First and foremost, this is a productive program. The credit must finance changes that will create jobs or immediately raise the incomes of the beneficiaries—during the first year of the project. Although the program began only in 1978, there already have been instances where incomes of beneficiaries have increased three-fold.

It is also a social program. It reaches out to people isolated from the national life, sometimes even from the cash economy, and with credit and training helps make them productive, capable of running their own businesses. It gives people a chance to prove themselves; the next time they need financing, they might well be judged good credit risks by public or commercial credit agencies.

This is not a give-away program. These are loans—not grants— and they must be paid back. There is every expectation that they will be repaid because the beneficiaries are engaged in serious, productive projects. Meanwhile, the intermediary institutions continue to work with the beneficiaries to ensure that the new income is used to create a better life.

The Small Projects Program is already making a difference. It is improving people's lives and is at the same time serving as a model for solving one of the most seemingly intractable problems facing international development: how to extend economic benefits to the lowest levels of society.

Teaching success

It takes more than money to make a successful project.

In many instances, for example, the people are called upon to organize themselves into a cooperative. They must elect officials, agree on bylaws, keep records, work together as a group. This is a major undertaking for which they may not be prepared. They must be taught.

The intermediary organization itself may lack the specialized staff to oversee the project. Expert assistance must be provided.

Whenever needed, the IDB's Small Projects Program finances such assistance. This technical cooperation ensures that the loan resources will be used efficiently and productively.

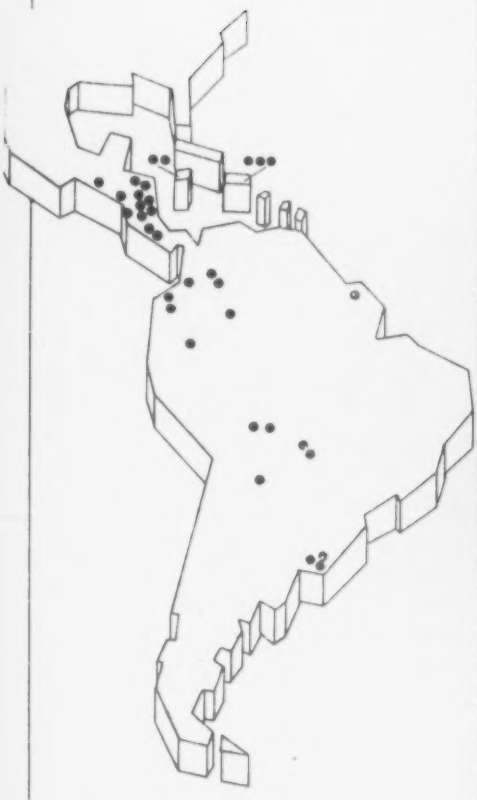
How the loan is made

The resources for the Small Projects Program come from the income of the Bank's Fund for Special Operations, from the Social Progress Trust Fund administered by the Bank for the United States, and the Swiss Development Fund for Latin America, also administered by the IDB.

The maximum loan for any given project is $500,000. This may seem large, but is very small compared to the typical IDB financing. A loan is often accompanied by a technical cooperation grant.

The Bank does not lend directly to the beneficiaries, but rather to an intermediary organization operating in the country. The terms are very generous: 40 years for repayment, a 10-year grace period, and a 1 per cent commission. No guarantee is required. The intermediary administers the loan and is responsible for its disbursement.

The intermediary transfers the resources to the beneficiaries, whether to a group or to individuals. Whenever possible, the financial conditions for this final transfer are comparable to those of conventional loans made by development banks operating in the same sector.



Where the projects are

By the end of 1980, the Small Projects Program had financed over 30 projects in 15 countries in Latin America. The many activities include handicrafts, agriculture, small industry, fishing, and community development.

The countries are: Argentina, Bolivia, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Guyana, Honduras, Jamaica, Nicaragua, Paraguay, Peru, Uruguay.

[illegible] responsibility

On the 20-year-old shoulders of Rafael Fallas rests the burden of helping support his grandmother, brothers and sisters. It's a big job. But Rafael is looking to the future with confidence.

A year ago, Rafael became a beekeeper. Thanks to a loan from the IDB's Small Projects Program to Costa Rica's National 4-S Club Foundation, a civic organization for youths, Rafael was able to obtain two credits of $600 each. He bought hives, bees and pollen collectors. Already his earnings are helping to provide his family with a modest but more secure living. He has even been able to buy new equipment to increase production.

Across Costa Rica, the IDB's original $500,000 loan is helping to finance a multitude of different agricultural and handicrafts projects of 4-S Club members such as Rafael. The young people of the country's rural areas are finding that with a lot of work, a lot of dedication, and a little help, they can forge for themselves better, more productive lives.

Pigs and profits

Raise 40 pigs? The settlers listened politely—though at first skeptically—to the representative from the national agricultural foundation, which had just received a loan from the IDB's Small Projects Program.

Not many years before, these people had left their homes in Colombia's central plateau to seek a new life in the lowlands. They hacked clearings out of the jungle and grew basic foodstuffs. They would keep a few chickens and pigs, which would feed on scraps.

But raise pigs commercially? Forty of them?

Now, 80 families have signed up to receive loans for preparing land to grow corn, yucca and other crops to feed the pigs. Meanwhile, they attend courses on animal nutrition and health. After constructing pigpens, each will receive 40 piglets.

In seven months, the farmers' pigs will reach a commercial weight of 80 kilograms, and the expected sales will enable the farmers to pay off their costs and build up their own capital.

The Small Projects Program is only one of a number of approaches the IDB brings to bear on the complex and persistent problem of poverty.

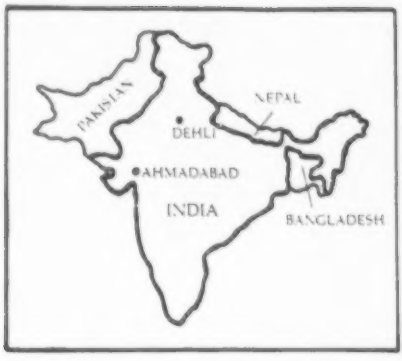
Many of the Bank's loans finance labor-intensive projects to provide more jobs for the unemployed. Other projects involve local processing of raw materials, again to create more jobs where they are most needed. Irrigation and roads give low-income people the means to produce more and get their products to market. Projects to provide water, sanitation, health services and electricity directly improve people's lives.

The Inter-American Development Bank was the first multinational bank established with the express purpose of financing social as well as economic development. The Bank is currently endeavoring to assure that up to one-half of its resources fund projects that directly benefit low-income people.

To date, priority development projects involving a total investment of $64 billion have been or are being carried out with the support of more than 1,200 Bank loans. A great deal of responsibility has been entrusted to the Bank, and the Bank is looking towards the future with confidence.

Additional copies of this publication may be ordered from the Inter-American Development Bank, 808 17th St., N.W., Washington D.C. 20577

[From Seeds magazine, August 1986]



SEWA

Indian Women Organize

By Medea Benjamin

In 1971 a small group of women cart-pullers in the cloth market of Ahmedabad City in India came to the offices of the textile workers' union. Indebted to moneylenders and harassed by police and city officials, they sought the union's protection. They were sent to see Mrs. Ela Bhatt, head of the women's wing of the union, which until then had been doing welfare work among the women family members of textile workers. Recognizing the need for an independent organization for working women, they founded SEWA, the Self-Employed Women's Association.

Today SEWA has a membership of 22,000 women of all trades— small vendors, seamstresses, trash collectors, farm laborers. Their unions help women battle against the powerful interests of moneylenders and contractors, while their worker-owned cooperatives help women gain greater control over their livelihoods. SEWA also runs child-care centers, a maternity and health insurance plan, and a housing project.

Street Vendors Learn to Defend Themselves

The vendors sitting in the market square in Ahmedabad City have been there for the last three generations, each family in its traditional space. But in 1980 the city authorities, at the urging of the big storekeepers and traders, decided to remove all the small vendors— leaving hundreds jobless. How would they defend themselves against this attack on their right to earn an honest living?

With the help of SEWA, the vendors organized. Defying the police, city officials, and big storekeepers, the vendors reclaimed their space and forced the city government to grant them legal recognition.

Jasodaben, a fish seller, refused to pay a daily bribe to the local policeman, so the policeman arrested her son on false charges of theft, took him to the police station and beat him up.

Now that the women are organized, when they are abused by police, they demand redress. With the help of SEWA lawyers, they bring their grievances to court. When a fellow vendor is unfairly arrested, the women gather outside the gates of the prison and demand her release.

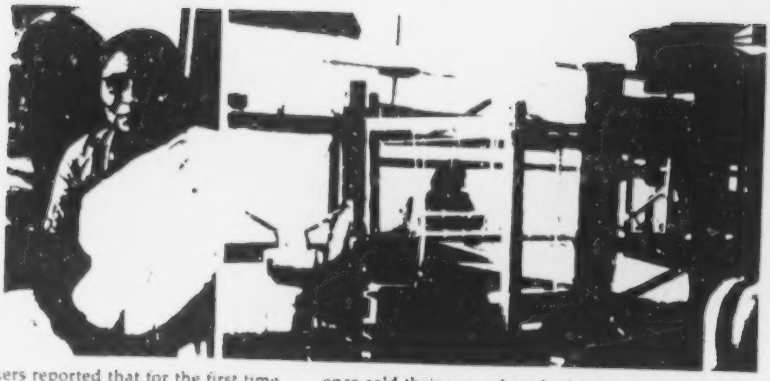
Organizing Home-based Workers

Balamma, who works from her home, rolls cigarettes for long hours with low pay. To skirt the minimum wage law, her employer closed down the factory where Balamma had worked for years and shifted to a "sale-purchase system." So every day the employer sells her the materials, then buys back the rolled tobacco the next day.

Like Balamma, many unorganized women see prices rising while their own earnings remain constant and their children go hungry. If they get the courage to ask the employer for a raise, the answer is invariably, "If I raise your wages, I will lose money and have to stop production. Then you will have no work at all."

This makes the women angry, for they see their employers grow richer and richer. As one woman said, "Before my boss had a small house, now he has added two more stories. Before he rode a bicycle, now he travels around in cars. But we women who do all the work have nothing." The women soon realize that the only way to confront their employers is as a group, so they join SEWA.

Once they join the union, the women often meet stiff resistance from their employers, who use threats, bribes and community pressure to get them to quit. A



Ela Bhatt with underprivileged Indian woman

Far right: Woman learning to weave SEWA flags

group of cloth workers reported that for the first time in 20 years, their boss called them in the office, offered them chairs to sit on, and gave them tea. "If you leave SEWA," he assured them, "I will give you special treatment. Don't bother about the rest of the workers." The employer of a group of conservative Muslim women told their husbands, "Your women are shaming your family's honor. They are coming out of their houses to go to meetings and are speaking in public. If you don't restrain them, your family and our community will get a bad name."

Despite the social and economic pressures, the women of SEWA have maintained their unity. Getting together with other women, talking to their employers without fear, learning about their legal rights are totally new experiences for them. Gradually, they discover a new world, a world in which they, too, have certain inalienable rights.

Banking with Poor Women

Two obstacles poor working women encounter are not owning the tools of their trade and not having investment capital. They, therefore, fall into debt to private moneylenders who charge interest rates as high as 10 percent a day.

Conventional bankers scoff at the idea of a bank for poor, illiterate women. "If these women cannot even sign their names, how can they have a bank account?" one banker asked incredulously. SEWA dealt with this by using photographs instead of signatures. When informed that eleven women had to sign the registration papers legalizing the bank's status, the illiterate group leaders sat up through the night to learn to sign their names correctly!

The SEWA Bank has shattered the myth that poor women are not credit-worthy. A comparative study of loan repayment rates found that 87 percent of SEWA loans were paid back on time, compared with 16 percent for the commercial bank.

The bank loans have given thousands of poor women a tremendous boost. Many now own their own carts, sewing machines, looms or carpentry tools. Vendors who once sold their wares from baskets on their heads now have little street corner booths. The Bank's great success has spawned the founding of similar banks throughout India and abroad.

Forming Worker-Cooperatives

Chandaben, a mother of six who makes her living selling used clothing, explains the influence SEWA has had on her life.

"SEWA has changed my life in many ways. I have met many new types of people—Muslims, harijans (untouchables), even visitors from abroad. I have learned how to speak in front of people, how to address meetings.

"At first my husband was very suspicious of me and would follow me all the time to SEWA. But when he saw that it was a society of women, he stopped being suspicious. Now he is very encouraging and often discusses with me the new ideas that I bring home. Before, if the food was not well cooked or the house was dirty, my husband and the older menfolk would insult and scold me and even beat me. But now they see how much respect I have outside. They see how I lead our groups of women and address public meetings. So in the house they also treat me with more respect.

"My attitude has also changed in so many ways. Before I used to quarrel all the time with my neighbors and relatives over small things—children, water, animals, spilling garbage. These things seemed very great, but now I see they are not worth quarreling over. Now I try to convince our neighbors not to quarrel over little things. I have become more tolerant toward people of other castes. In our public meetings we all sit together and eat together.

"I think there should be organizations like SEWA all over the country. There are many, many women like us and they should be organized. If I went to another city I would organize a SEWA there. I would like to send a message of SEWA to spread everywhere."

Source: Self Employed Women's Association, SEWA Reception Centre, Opp. Victoria Garden, Ahmedabad 380 001, India.

[From the Washington Post, Nov. 2, 1986]

COLMAN McCARTHY

Third World Bank That Lends a Hand

No other banker in the world is like Muhammad Yunus. He is the founder and director of the Grameen Rural Bank in Bangladesh, the Moslem nation nestled between India and Burma on the Indian Ocean. In 10 years of running the bank, Yunus, who has a doctorate in economics from Vanderbilt University, has loaned $40 million, all of it to Bangladesh peasants whose average per-capita income is less than $140 a year.

Last week, Yunus, 46 and a former professor of economics at Chittagong University in southern Bangladesh, addressed a forum on credit for the poor sponsored by the House Select Committee on Hunger. Yunus also shared a World Food Day platform with Barber Conable, president of the World Bank.

The uniqueness of the Grameen bank is that reasonable credit for the rural and landless poor is either rare or nonexistent among the world's money-lenders. Yunus is not dispensing money for car or home improvement loans. The money is for survival—for a cow, a bullock cart, carpentry tools, wheat thrashers, sewing machines or light industrial equipment. Currently, $1.5 million a month is going out. The average loan is $60, with the largest $200 and the smallest $1. Originally, the bank was funded on a small scale by the Bangladesh government, with Yunus as the guarantor. As it became successful and generated savings, a borrowers' cooperative was able to buy back 75 percent of the bank.

The loans, disbursed from 241 branch banks, are for what Yunus calls "any income-generating activity." Seventy percent of the recipients are women. Yunus describes a typical loan: "Supposing a woman took money to buy a cow. She didn't have one before, nor anything else. By the end of the year she has cleaned up the loan. Now she has two cows—one cow and a calf. The second year she borrows money to buy another cow. At the end of the year, she does the same thing [with her loan]. She now has two cows and two calves, plus the first calf is probably having its own calf. Out of nothing, we have generated an asset base of a poor person into five cattle. That's a tremendous change."

During one recent three-year period, the Grameen bank loaned $800,000. Studies found that about $800,000 in assets came to the poor as a result. The interest rate is 16 percent, easily affordable against the 10 percent a month and then 10 percent a day charged by village money-lenders. Defaults have been less than 1 percent, a rate far lower than found in commercial banks.

Four years ago, Yunus wrote "Jorimon of Beltoil Village, and Others in Search of a Future." The book, written first in Bengali but translated into English when it sold well, tells of landless village women like the impoverished Jorimon who were helped by the bank. Only the life histories of women are in the book. "We have forgotten that women are an integral part of our work force," Yunus writes. "One must look through the experiences of a woman to find out the true color of our society. All the deformities and perversions of our society are bound to show up distinctly if you see them as a woman does, particularly if the woman happens to be a poor woman . . . When the diabolical treatment of poor women by a male-dominated society is added to the misery caused by poverty, the situation assumes a heartless severity that outstrips all norms of civilized behavior."

BY FRED SWEETS—THE WASHINGTON POST

MUHAMMAD YUNUS

Yunus, a humanitarian who has stayed close to the villagers he serves, does more than break with the banking world and its ethic of ignoring the no-collateral poor. He also defies conventional Third World economic policies that mimic western models: mass production, urbanized distribution methods, rapid mechanization and computer-intensive manufacturing. Instead, Yunus keeps within the tradition of India's Mohandas Gandhi and Britain's E.F. Schumacher, both respecters of family and village life. Yunus has applied Schumacher's belief that nothing is more needed than "economics as if people mattered."

Volumes have been written on the hopelessness of landless poor people in Third World countries. Yunus, whose branch office workers seek out people to loan to rather than wait for them to come, has defied conventional economic doctrine. He has proven that moneyless, illiterate and jobless villagers are worthy credit risks.

Word spreads about Grameen's successful channeling of capital to the poor. Last week, Yunus was invited to Arkansas to meet with Gov. Bill Clinton on the possibilities of creating a bank for that state's rural poor. A few months are needed to grasp this: The world's richest nation, with 348 failures of banks and savings and loan association in the past three years, is being instructed by a banker from Bangladesh on how to mind the store.

PREPARED STATEMENT OF HON. BENJAMIN A. GILMAN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEW YORK

I want to commend the good chairman, the gentleman from Texas, for holding this important hearing at such an appropriate time.

There is much current interest surrounding the immense possibilities of Micro-Enterprise finance and so I am pleased that our committee is serving as a vehicle to shed more light on the issue. The excellent committee staff work that went into the committee print on Micro-Enterprise last Congress also produced some good, sound recommendations as to where we should proceed. The recommendations confirmed two important lessons that I had learned from serving on the Presidential Commission on World Hunger and the Foreign Affairs Committee, that there is a role for the private sector to play in developing the third world, and that it does not always have to conflict with indigenous beliefs in such a manner that it completely changes the local economic, cultural and political landscape.

Micro-Enterprise finance not only helps people to help themselves but it also contributes greatly to the political and economic stability of their nation. Research and committee testimony indicates that the informal sector economy employs from 30 to 70 percent of the labor force in developing countries.

Informal sector enterprises or "Micro-Enterprises" include the hawkers and street vendors selling goods, clothing, services and food in both urban and rural sectors. Such business activities can comprise up to 80 to 90 percent of all economic activity in a given village or poor neighborhood on a developing country.

H.R. 1032, legislation I have recently introduced seeks to enhance AID'S ability to target resources to those Micro-Entrepreneurs who do not have the opportunity to obtain credit assistance from existing formalized credit channels. During the conference of the 1985 Farm bill, I worked closely with my colleagues on both sides of the aisle to implement a program that would use local currency reflows from the food for peace commodity concessional sales program (title I) to promote private enterprise in developing countries. Unfortunately, the legislation that was finally adopted and, moreover, the guidelines that were eventually implemented did not include any provision or incentive for recipient governments to target funds to Micro-Enterprise credit initiatives.

Under my bill, local currency reflows from title I food sales would be provided on a concessional loan or grant basis to indigenous financial intermediaries who would then provide small amounts of credit to those Micro-Entrepreneurs who do not have access to other formal credit sources. Indigenous financial intermediaries eligible to participate in this program could include local associations, cooperatives, credit unions and other non-profit and non-governmental organizations.

The existing P.L. 480 section 108 "Private Enterprise Program" does not provide any incentive for recipient governments to participate. The law became effective in December of 1985, and to date, only five countries have agreed to enter into section 108 agreements (Tunisia entered in 1986, Sri Lanka, Jamaica and Costra Rica in 1987, Morocco is expected this year and perhaps others). Existing law calls for the generation of approximately $100 million per fiscal year in section 108 local currency agreements.

It is my contention, that aid has already experienced difficulty in obtaining country agreements for the generation of these funds, much less their programming. H.R 1032 calls for the earmarking of 65 percent of the local currency generated under section 108 to be used for Micro-Enterprise credit assistance to those profit-making enterprises operated and initiated by poor people in remote rural villages and communities and urban slums and neighborhoods. (Those areas where instability begins and which eventually spreads).

As the current law is presently written and interpreted, Micro-Enterprise initiatives are not included in the example for the local currency uses. This is a shame because research has found that the greatest economic activity is generated and produced by the poor. I would hate to see another U.S. bilateral aid program that does not make every possible effort to target the development initiatives designed and in some cases already underway by the poor.

It is time that Congress move forward initiatives which assist enterprises operated by the poor and give these enterprises the credit they need to generate meaningful revenue and income. The legislation which I am proposing will not increase the federal deficit we are struggling with. The administration believes this program will be difficult to administer.

My answer is simple. These small loans to Micro-Enterpreneurs will be administered by the financial intermediaries (start-up costs are provided in the bill), the only thing AID must do is to help make 108 more attractive to recipient countries and it must select financial intermediaries that have the capacity to assist the poor. It is imperative that AID find its way to help foster the entrepreneurial spirit so that the poor majority in the developing world can take a part in their nation's development. By so doing, we will not only be able to see a light at the end of the development assistance tunnel, it will also help the world become a safer place to be in.

Accordingly, I look forward to hearing from our expert witnesses today so that I may learn how this committee can be of assistance in creating the right atmosphere for Micro-Enterprise finance to florish.

PREPARED STATEMENT OF CAMILO LLUBERES HENRIQUEZ, PRESIDENT, ASOCIACION PARA EL DESARROLLO DE MICROEMPRESAS, INC. [ADEMI]

In this presentation, I will concentrate in great part on a specific project of employment promotion for the poor in the Dominican Republic. Specifically the ADEMI project. However, it is necessary initially, to cover general considerations on economic development and foreign aid, specifically that which we classify as Humanitarian Aid.

Some critics of Foreign Aid say that it is not well managed by the recipient countries and this reduces its' potential to generate development to face the problem of poverty. Others are critical of Foreign Aid as a matter of principle. Those who follow the economic dependency theory argue that Foreign Aid from the center tends to increase the dependency of the periphery. There are others who believe that Foreign Aid tends to enhance government control, hindering private iniciative and the market forces. However, these value judgements usually are made without much economic data to substantiate them.

Studies made by international lending organizations indicate that Aid has had a positive impact and contributes considerably to growth and the development of the Private Sector. A study by the US Treasury Department concluded that only 8% of the loans is provided to support the public sector and that 92% is mainly directed to projects which promote the private sector of the economy. Projects financed had return on investments that were quite satisfactory with an average of 18% worldwide. Only 9% of the total investment could be considered a failure in the expost evaluation.

On the other hand, reports by the World Bank tend to give us an optimistic opinion on aid to developing countries. According to their data low-income countries averaged 2.9% per year in per-capita income growth in the period 1960-81.

This is considered a good rate of growth when compared to the historic rate of growth of per-capita income in the US from 1900 to 1950, which was about 1.5%. Welfare has also improved notably in the past decades when measured by crude deaths rate and life expectancy.

As such, statistics tend to contradict the theory of critics.

However, the truth is that statistical indicators tell us little about the reality of human development since they are of general application and do not give us an indication of the level of poverty, income distribution, employment and under-employment.

In many cases, financial aid that is motivated by humanitarian values ends up in the hands of governmental elites and for other power groups. Yet these groups enjoy a considerably higher standard of living than that of the average US citizen.

In other cases, financial aid is mainly oriented to promote the private sector and it remains in the hands of the economic elite which is the only group that has the power and capacity to assimilate such aid. Yet, the income and standard of living of this economic elite is far higher than that of upper-income groups in developed countries. The problem of low-income countries is not going to be solved by promoting private iniciative and development among the higher-income groups alone, in the hope of generating more employment, but rather by promoting iniciative and integral development among the poor.

Under-development is due essentially to the low productivity of the great mass of the people. Sustained growth can be obtained only by improvement of the productivity of the masses. Then, investment should be aimed at human capital to optimize the productivity of the great majority of the population which is 40% unemployed or underemployed in low-income countries.

Efforts to generate human and economic development must be applied in the lower strata of these societies. When the assistance stays above, its' potential to generate massive employment and to improve productivity is greatly reduced. Also, in most countries aid and assistance that is applied above is lost considerably in its filtering down. As such, the trickle-down effect is diminished substantially.

Mega-projects with positive impacts are only those which develop services and socio-economic infrastructure. Mega-industries, highly automated, aggravate the problem of employment and in small countries contribute to market inefficiencies by promoting oligopolies and monopolies.

Large industries in low-income countries (which are the equivalent of small and medium-size industries in developed countries) create approximately one job for each US$15,000 invested. By contrast, in the informal sector of the economy one job is created with and investment of only US$300.00.

It is obvious, then, that donor countries and institutions should insist on obtaining guarantees from recipient countries that financial and technical assistance will be filtered down to the masses of the population, where it can have the greatest potential to generate higher productivity and growth.

Upper-income classes can generate their own resources locally for their development; since in democratic capitalistic countries they control financial and private learning institutions.

Thus, government income and foreign aid should be greatly concentrated to solve the problem of the poor and underpriviledged which represent the great majority of the people and where the highest potential for growth is laying dormant only for lack of resources and opportunities.

These concepts were fundamental in our drive to create ADEMI.

ADEMI is a non-profit private institution founded in 1983. Its objective is the promotion of employment and the strengthening of weak jobs in the informal sector or among urban micro-businesses through financial and technical assistance. Through this assistance, which is not afforded to this sector by formal private or public institutions, ADEMI guarantees micro-businesses and their labor force sustained growth and stability and their eventual incorporation to the formal sector of the economy.

The program concentrates mainly in providing working capital loans for the purchase of raw material. Micro-industries usually finance themselves from individual lenders at a rate of interest that ranges between 2% per day and 10% per week as they do not have access to commercial banks due to unsatisfactory collateral. ADEMI requieres only an I. O. U. ("I Owe You") as collateral and charges commercial bank rates.

From the begining, the project was set up to be self-sufficient. Financial and technical assistance costs had to be covered by interest income. The project was implemented with strict business criteria as far as management and performance is concerned. Its promoters and directors are from the private sector and it is managed as a private development bank.

With these criteria ADEMI has achieved self-sufficiency since 1986.

At the begining of the project in 1983, deficit in operation was covered with an A. I. D. donation.

Self-sufficiency has been as follows since that time:

1983 = 39.5%
1984 = 52.7%
1985 = 76.1%
1986 = 101.0%

To calculate self-sufficiency we excluded donations. Income figures only include interest and other charges for financing and services.

During 1986 income was RD$605,027 and expenses RD$601,004, which provides 101.0% self-sufficiency.

Since 1983 ADEMI has financed 2772 projects in the country. It started its' operations in the poor "barrios" of Santo Domingo and last year expanded to 13 other cities of the south-west and south-east of the country. This year it will be expanded to the north-west and north-east to achieve national coverage.

ADEMI has made 10769 individual loans to 2772 micro-businesses. It has loaned RD$10,749,504. The average loan has been RD$998. ADEMI Portfolio was RD$1,692,808 as of December 31, 1986.

The program also offer loans to vendors in the grocery markets of cities and has 1730 beneficiaries in this project organized as "solidarity groups" of an average of 5 members, which mutually guarantee the loans to individual members.

Since the begining of the program, 2566 new micro-businesses jobs were created and 11589 were strengthened. Among the "solidarity groups" 1730 jobs were strengthened.

As such, the program is having a direct impact upon 15,885 jobs and an indirect impact on a population of 114,885 people when considering dependents.

The program is financed as follows:

Private Sector and Own Resources	RD$ 289,300
US - A. I. D	1,085,370
Interamerican Development Bank, IDB	1,064,000
Government	675,000
GTZ of Germany	15,000
TOTAL	RD$3,128,670

In spite of being a non-profit social institution working for the poor, ADEMI has grown in a way only compared to private sector entities geared by profit motive. This has been achieved because of the quest to become institutionalized as the development bank of the poor and small.

The aforementioned is demonstrated by the following data:

1. Assets increased 77.8% in 1986 to RD$2,946,754 from RD$1,656,742 in 1985.

2. Liabilities increased only 34% in that same period from RD$1,165,882 in 1985 to RD$1,558,292 in 1986.

Net-worth increased 126% from RD$490,860 in 1985 to RD$1,113,392 in 1986.

ADEMI has received since its founding RD$1,538,835 in donations and RD$1,589,833 in loans.

Donations have been received from the Dominican private and public sector in the amount of RD$453,466 and RD$1,085,369 from A. I. D.

The program has done quite well during its 4 years of implementation, as ascertained in an evaluation made by the Interamerican Development Bank, copies which will be left with the staff of this Committee. ADEMI has been able to achieve 80% of its original objectives and did not do better because of the usual burocratic delays in disbursement of the loans from the government and international institutions. Also, it had to face the general economic unrest as the country re-adjusted its' economy due to the problem of the foreign debt. The re-adjustment always affects the poor more than any other sector of the economy which is where the program is directed.

The program had set the objective of financing 2810 micro-businesses from the begining to 1986 and financed 2772. It set out to create and strengthen 14,050 jobs by 1986 and was able to impact 15,885. Its objective was to impact indirectly a total population of 105,250 by 1986 and its impact was on 114,885. Its target was to lend $9,550,000 by 1986 and it lent $9,612,622.

The program had a very positive effect on the income of its' beneficiaries since this increased 37% average estimates by 1986.

It is also important to note that the projects with the highest rate of growth in income were the smallest and marginal which were almost at the point of failure.

From 1985 to 1986 employment in the micro-businesses financed increased by 52%.

Also the average number of jobs increased from 3 to 5.

Profits of micro-businesses financed increased 50%.

As the informal sector of the economy is unregulated, benefits for workers are non existant. ADEMI has provided life and hospital insurance which is considerably more efficient than the social security system that the government provides to the private and public working force.

When we compare loan disbursement to employment over a 3 year period, we arrive at the conclusion that a job was generated and sustained with an investment of RD$583 which represents about US$185 at today's exchange rate. This shows that with each US$1 million investment ADEMI can create and strengthen 5000 jobs.

Another important achievement of ADEMI has been to establish from the begining a relationship between the micro-businessman and formal commercial banks. All transactions are done through a commercial bank to establish initially a relation between the formal and the informal sector. As the business grows, this relation get closer and the micro starts to obtain loans from the bank. ADEMI stimulates micros to save in the commercial banks, and all beneficiaries have savings accounts, to the extent that today savings of micros amount to 18% of the institution portfolio. But, even more important, is the fact that savings of beneficiaries has increased 10 times (1000%) from RD$80,810 in the begining to RD$811,973 by December 31, 1986.

Although the program limits itself to the financing of working capital the fixed assets of the beneficiaries increased 19%.

ADEMI is now negotiating a loan with the Interamerican Development Bank (I.D.B.) to introduce the financing of fixed assets. This new modality will permit a faster growth of projects financed because as their need for expansion present itself they will also now have available funds to purchase equipment.

The ADEMI program also has a beneficial impact on the female population since 21% of the beneficiaries are women.

Among the "Solidarity Groups" women represent 30% of the members.

Recuperation of loans has not been a problem in the program. Only in the extreme cases such as death are loans considered lost and even in this case these are reinbursed through life insurance.

Arrears up to 90 days represent 17% and in most instances are the result of cyclical problems in the business or a family crises that forces the beneficiary to divert funds which will later be repaid. In a minority of cases, the beneficiary closes the business and goes into another activity but continues paying the loan. We have documented cases of beneficiaries that find a good opportunity for a job or business in the US and leave the country but continue sending payment to ADEMI from abroad. They have a great sense of responsibility for the project because it gave them the opportunity to advance in the economic and social ladder. They feel that the same can be done for thousands of others, whom, like themselves, society has never given the opportunity to progress and develop their potential to the maximum.

Here we arrive at the key message. At the fundamental question. At the principal motivation of this project. We believe that if we are to strenghten democratic principles in less-developed countries, facing massive unemployment and underemployment, we must provide the people opportunity to develop their individual potential to earn a decent living. Most of these countries have made great strides towards the achievement of political freedom over the last decades.

However, one can not say that these countries are democratic in the strictest sense of the word. Democracy can not be defined only as political freedom. It is imperative to include in the concept economic democracy as well.

What motivates us to implement programs like ADEMI is the belief that the majority of our people could well lose faith in democracy as a system, in the event that the system fails to provide the basic necessity of life. We have based our system of government in the two great Western Revolutions - the American and the French - which defined clearly the fundamental rights of men.

But to what extent has society in these countries guaranteed man's quest for the pursuit of happiness?

Why does almost 50% of the population subsist at a level of such poverty and malnutrition?

Why does society not provide opportunity to even those that have the capacity and knowledge to develop their own business in the lowest scale?

Can we, in the name of democracy, justify the tremendous concentration of wealth and power in the hands of a few and in detriment of so many?

Here is where we can diferenciate the more mature democracies of Western Europe and North America from those of the South.

Political liberties have been complemented with a considerable degree of economic and social justice.

How can a man that is capable of manufacturing a product acceptable to the market be hindered in his development by a society that does not create credit mechanism for his financing?

Is it that credit is only available to those that own the banks?

Is it that politicians, once in power, are only interested in furthering their own individual interest which coincides with that of the wealthy minorities leaving the majority of the people in the same depressed stage in which they have been for centuries?

You would have to agree with the extreme imperfection of this concept of democracy.

The danger is that these questions are being asked constantly by the rural and urban poor all through the developing countries.

We now have mainly democratic governments in Latin America but the process of democratization has not been accompanied by the goal of obtaining a fair distribution of wealth. Economic and social justice has not been truly implemented.

For this reason, society becomes isolated from the highest human objective: social and economic justice.

It is evident that democracy, at least in Latin America, needs to redefine its outlook to provide opportunities to the majorities.

In most countries the development process has emphasized the use of capital, a scarce resource, to the detriment of labor, which is the abundant resource. This is why unemployment and underemployment affects almost 50% of the labor force. But in addition, the capital that is available does not filter down to the small and micro entrepeneur rather it tends to stay among the medium and large businesses.

One would have to be too optimistic to think that a system so unjust could prevail only by calling itself democratic and holding elections every 4 years. This political system could vanish as the great majority of the Latin American population loses faith in the incomplete version of democracy offered.

ADEMI is nothing else but the effort of a group of more advanced businessmen which are trying to redefine democracy through realistic action. We are trying to integrate the poor, that are willing and prepared to work, to the economic and social life of the country. We are trying to convince power groups that these people deserve the same right as the minorities to develop themselves using the means that society has available.

We are trying to get private banks and development institutions to reserve a portion of their funds to the financing of the micro and small enterpreneurs.

International aid should be concentrated as much as possible to finance the micro and small producers in the cities and in the rural areas. This will be the greatest contribution to the strenghtening of democracy and the promotion of private iniciative. It must be concentrated on labor intensive projects.

Large scale industrial and agricultural development can be financed with local means. A micro-entrepeneur is the best seed to create a geometric growth of employment and productivity.

The most permanent solution to the problem of world hunger - except in the extreme case of famine - is not to feed but to enable man to support himself, to become an integrated and integral part of the society he forms, which is the same as supporting his right to exist.

ADEMI's expansion program is very ambitious and it will become the development bank of the tiny entrepeneur in the Dominican Republic, financing more than 25,000 projects over the next 5 year creating and strengthening 100,000 jobs with an indirect impact on a population amounting to 600,000 people or 10% of the country's population.

ADDITIONAL INFORMATION AND STATISTICAL DATA ABOUT "ADEMI"

II. ADEMI - RESUMEN 1986

A. INGRESOS / EGRESOS: (AUTOSUFICIENCIA) PARA EL AÑO

TOTAL DE INGRESOS: RD$605,027
TOTAL DE EGRESOS : RD$601,004 = 101. 0 % AUTOSUFICIENCIA

NOTA: En los ingresos sólo se incluyen las comisiones e intereses recibidos por concepto de las operaciones de los préstamos a Microempresarios y miembros de Grupos Solidarios.

B. PROYECTOS FINANCIADOS, 1986 Y AÑOS ANTERIORES:

ZONA	1983	1984	1985	1986
Santo Domingo	787	189	330	277
Baní	-	19	40	26
Barahona	-	-	31	110
San Juan	-	-	15	65
Azua	-	-	13	95
San Cristóbal	-	-	14	76
Ocoa	-	-	14	60
Samaná/Sabana de la Mar	-	-	-	121
Monte Plata	-	-	-	97
San Pedro de Macorís	-	-	-	81
Hato Mayor	-	-	-	54
El Seybo	-	-	-	58
La Romana	-	-	-	99
Higuey	-	-	-	101
TOTAL/AÑO	787	208	457	1,320

NOTA: De los 1320 proyectos financiados en 1986, 1262 corresponden a Microempresas Productoras y 58 a Grupos Solidarios de Micronegociantes (394 miembros solidarios).

C. RESUMEN: PRESTAMOS, DESEMBOLSOS, EMPLEOS NUEVOS, BENEFICIARIOS.-

	PERIODO 1983-85	AÑO 1986	TOTAL A DIC. 31-86
Proyectos Financiados	1,452	1,320	2,772
Número de Préstamos	7,535	3,234	10,769
(RD$) Monto Total Préstamo	6,005,003	4,744,501	10,749,504
(RD$) Monto Promedio/Préstamo	797	1,467	$\bar{X}$: 998
Número de Préstamos Recuperados	6,562	1,908	8,470
(RD$) Monto Recuperado	4,746,134	4,389,033	9,135,167
(RD$) Cartera Crediticia Vigente, al 31 de diciembre, último año	984,626	1,692,808	1,692,808
(RD$) Ahorro Global Acumulado de los ME	362,268	449,705	811,973
BENEFICIARIOS DIRECTOS - EMPLEOS			
MICROEMPRESAS: EMPLEOS NUEVOS	1,225	1,341	2,566
EMPLEOS FORTALECIDOS	6,365	5,224	11,589
GRUPOS SOLIDARIOS - BENEFICIARIOS	1,203	527	1,730
TOTAL BENEFICIARIOS DIRECTOS	8,793	9,092	15,885
TOTAL BENEFICIARIOS INDIRECTOS	79,425	35,460	114,885

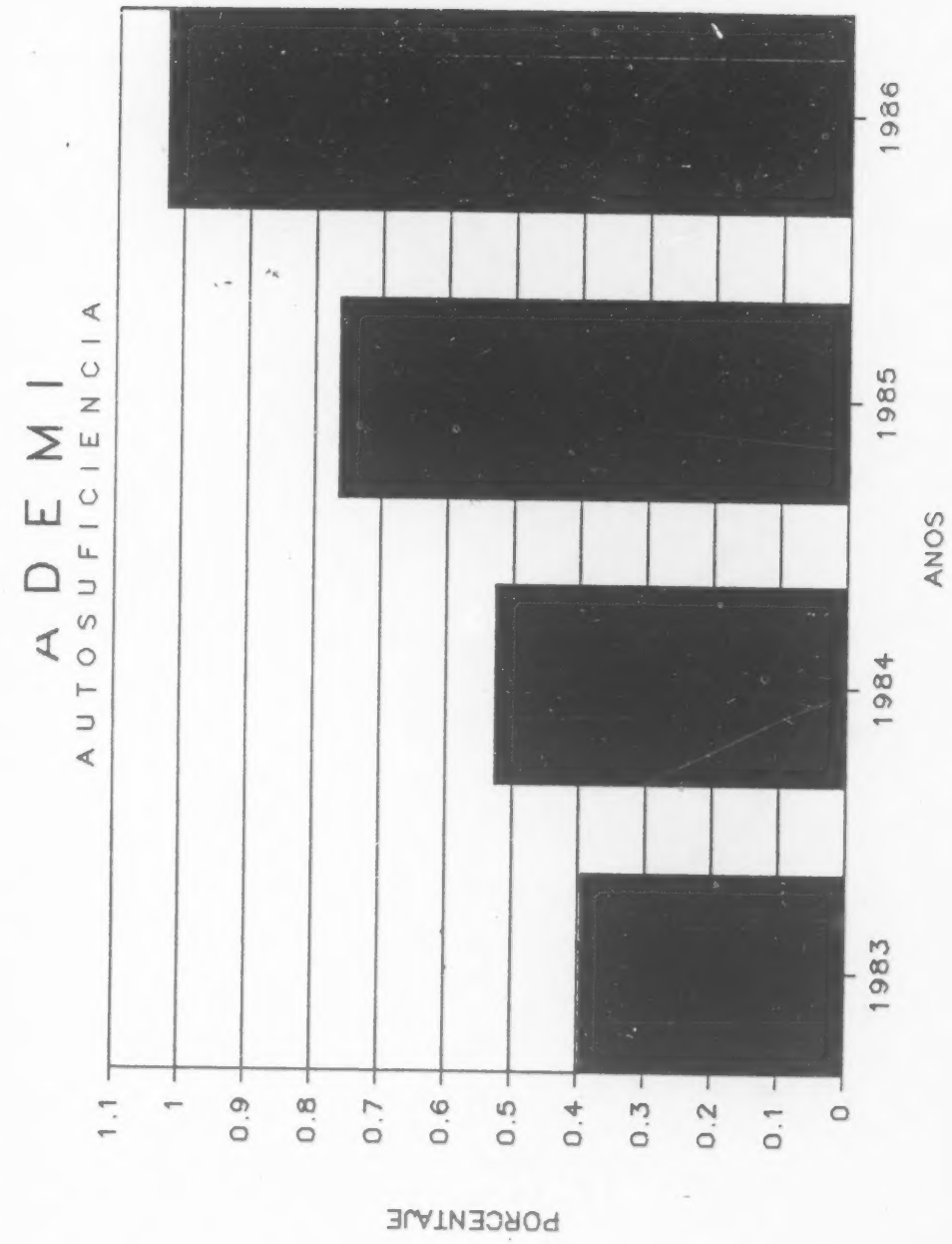
D. ADEMI- Comentario Financiero:

Al 31 de diciembre de 1986, la cartera de préstamos es de RD$1,692,808, lo que significa un aumento de 72% en relación al año anterior (31 de diciembre de 1985).

El crecimiento económico de la Institución durante 1986 ha sido muy significativo; por ejemplo, los activos aumentaron en un 78%, mientras que el pasivo sólo creció 57%; el patrimonio, en relación al año anterior, aumentó en RD$622,532, o sea un 127%:

	DIC. 31-1985	AUMENTO 1986	DIC. 31-1986
ACTIVOS	1,656,742	1,290,012	2,946,754
PASIVOS	1,165,882	667,480	1,833,362
PATRIMONIO	490,860	622,532	1,113,392

(VER ESTADOS FINANCIEROS, ANEXO A)

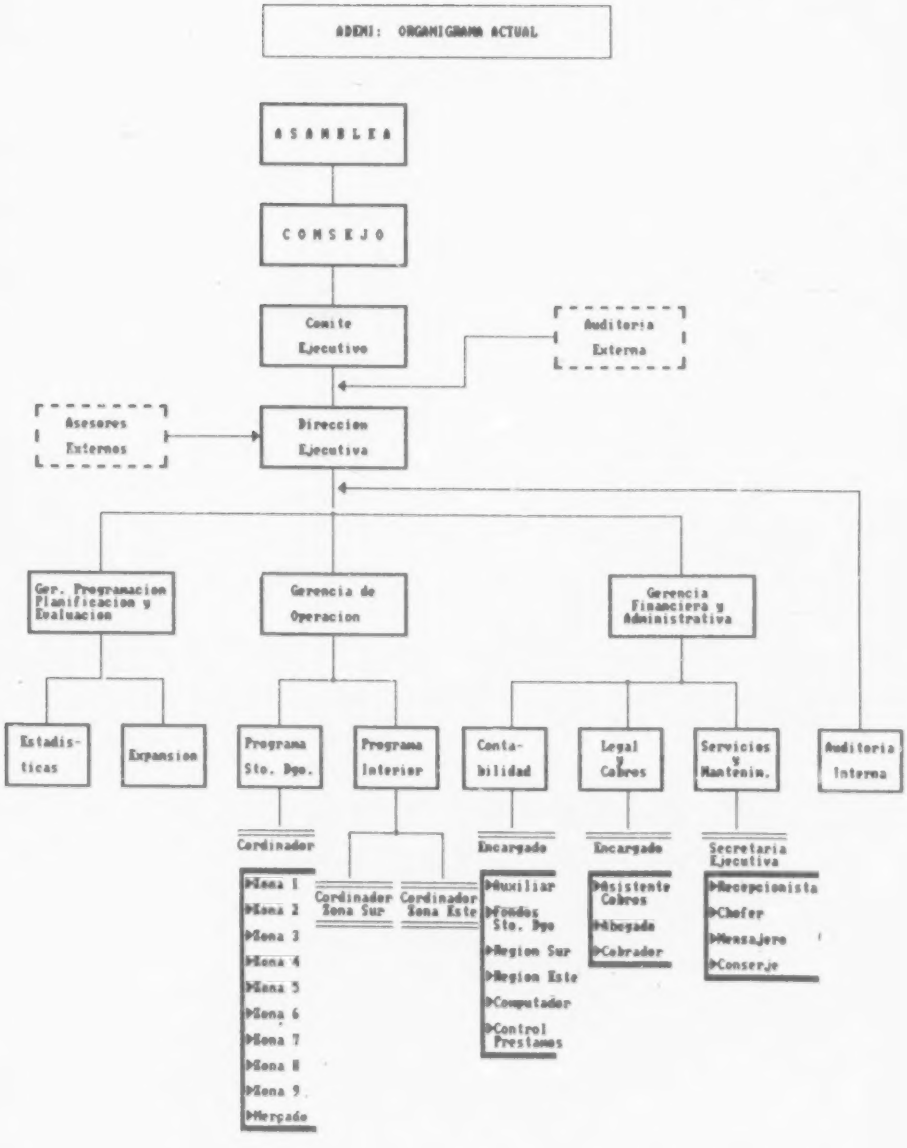

ADEMI
AUTOSUFICIENCIA
PORCENTAJE
1.1
1
0.9
0.8
0.7
0.6
0.5
0.4
0.3
0.2
0.1
0
1983
1984
1985
1986
ANOS

CUADRO NO.3

ADEMI: INGRESOS POR INTERESES, GASTOS, COSTO POR PESO PRESTADO Y AUTOSUFICIENCIA

(1983-1986)

	GASTOS (RD$)				INGRESOS POR INTERESES COMISIONES Y OTROS (RD$)				COSTO POR PESO PRESTADO (RD$)				AUTOSUFICIENCIA (%)			
	1983	1984	1985	1986	1983	1984	1985	1986	1983	1984	1985	1986	1983	1984	1985	1986
ENERO	-	11,767	24,970	42,826	-	4,879	17,898	40,954	-	0.06	0.15	0.19	-	41.5	71.6	96.0
FEBRERO	-	19,174	21,960	42,453	-	8,118	10,416	36,802	-	0.12	0.14	0.21	-	42.3	47.4	86.7
MARZO	-	15,590	29,109	33,067	-	9,624	13,100	39,807	-	0.11	0.10	0.10	-	61.7	45.0	120.4
ABRIL	3,664	12,407	23,711	44,144	-	8,093	13,606	50,861	-	0.10	0.11	0.09	-	65.2	57.3	115.2
MAYO	7,139	17,212	32,327	38,855	327	9,893	33,975	37,210	0.22	0.08	0.12	0.20	4.6	57.5	105.1	95.8
JUNIO	13,742	16,390	24,704	64,298	1,782	7,554	38,373	45,336	0.16	0.13	0.12	0.18	13.0	46.1	155.3	70.5
JULIO	11,046	20,471	30,303	49,052	3,620	10,757	31,400	69,907	0.11	0.13	0.11	0.15	32.8	52.5	103.6	142.5
AGOSTO	11,811	21,178	48,514	47,262	5,327	10,594	27,238	46,045	0.10	0.11	0.21	0.13	45.1	50.7	56.1	97.4
SEPTIEMBRE	12,452	16,648	39,832	52,083	6,033	10,761	27,549	62,214	0.10	0.10	0.12	0.11	48.5	64.6	69.2	119.5
OCTUBRE	15,834	25,397	37,395	48,156	8,094	12,704	20,905	51,651	0.09	0.14	0.16	0.12	51.1	50.0	55.9	107.3
NOVIEMBRE	15,244	32,976	33,552	55,969	9,323	12,932	31,588	49,963	0.08	0.14	0.14	0.16	61.2	39.2	94.2	89.3
DICIEMBRE	31,042	47,092	62,952	82,839	18,525	27,644	35,089	74,277	0.18	0.21	0.23	0.23	59.7	60.8	55.7	89.7
TOTAL	121,974	256,302	409,329	601,004	53,031	133,553	301,137	605,027	0.15	0.12	0.14	0.16	39.5	52.7	76.4	102.5


ADEMI: ORGANIGRAMA ACTUAL
ASAMBLEA
CONSEJO
Comite Ejecutivo
Auditoria Externa
Asesores Externos
Direccion Ejecutiva
Ger. Programacion Planificacion y Evaluacion
Gerencia de Operacion
Gerencia Financiera y Administrativa
Estadis-ticas
Expansion
Programa Sto. Dgo.
Programa Interior
Conta-bilidad
Legal y Cobros
Servicios y Mantenim.
Auditoria Interna
Cordinador
Encargado
Encargado
Secretaria Ejecutiva
Zona 1
Zona 2
Zona 3
Zona 4
Zona 5
Zona 6
Zona 7
Zona 8
Zona 9
Mercado
Cordinador Zona Sur
Cordinador Zona Este
Auxiliar
Fondos Sto. Dgo
Region Sur
Region Este
Computador
Control Prestamos
Asistente Cobros
Abogado
Cobrador
Recepcionista
Chofer
Mensajero
Conserje

CUADRO NO. 10

CRONOGRAMA PROGRAMA DE FINANCIAMIENTO

(Valores en RD$)

Fondos/Años	Donaciones	Préstamos	Totales
1 9 8 3			
Sector Público	150,000.00		150,000.00
Sector Privado	88,300.00		88,300.00
Total 1983	238,300.00		238,300.00
1 9 8 4			
BID I	8,296.50	230,523.50	238,819.50
AID	197,721.00		197,721.00
Sector Privado	20,150.00		20,150.00
Total 1984	226,167.50	230,523.50	456,690.50
1 9 8 5			
Sector Privado	1,100.00		1,100.00
AID	390,736.49		390,736.49
BID I	8,533.27	371,056.70	379,589.97
BID II		463,253.42	463,253.42
GTZ	15,000.00		15,000.00
Total 1985	415,369.76	834,310.12	1,249,679.80
1 9 8 6			
BID I	12,086.18		12,086.18
Sector Público	150,000.00		150,000.00
Sector Público		525,000.00	525,000.00
AID	496,912.45		496,912.45
Total 1986	658,998.63	525,000.00	1,183,998.60
Totales	1,538,835.89	1,589,833.62	3,128,669.51

CUADRO NO. 14
BENEFICIARIOS DEL PROGRAMA

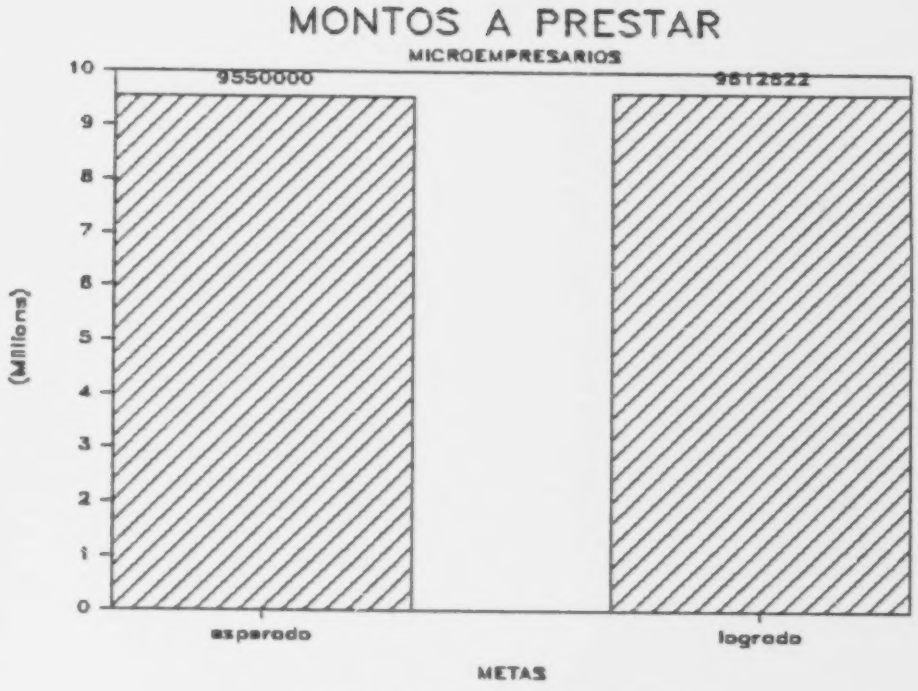
Concepto	Microempresas		Grupos Solidarios		Total	
	Esperado	Logrado	Esperado	Logrado	Esperado	Logrado
ME-GS Atendidos	2,810	2,495	1,000	277	3,810	2,772
Beneficiarios						
Directos	14,050	15,885	7,000	1,730	21,050	17,615
Indirectos	70,250	79,425	35,000	8,650	105,250	88,075

CUADRO NO. 15
GRUPOS SOLIDARIOS
(valores en RD$)

Ano	No. Prestamos		Monto a Prestar		Promedio p/p	
	Esperado	Logrado	Esperado	Logrado	Esperado	Logrado
1983	1,750	1,074	637,000	315,945	364	294
1984		731		328,551		449
1985	2,400	4	861,000	14,700	205	3,675
1986		126		484,475		3,845
Total	4,150	1,935	1,498,000	1,143,671	284	2,062

CUADRO NO.16
MICROEMPRESAS
(valores en RD$)

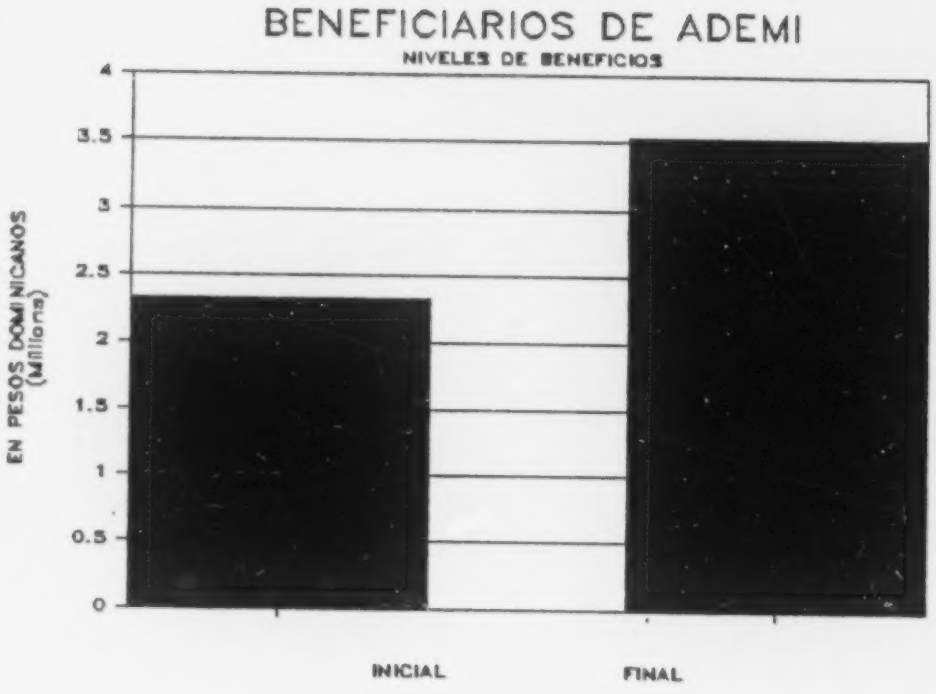
Ano	No. Prestamos		Monto a Prestar		Promedio p/p	
	Esperado	Logrado	Esperado	Logrado	Esperado	Logrado
1983	5,227	1,906	2,392,000	717,825	457	377
1984		2,031		1,171,083		577
1985	11,363	1,789	7,158,000	2,856,900	629	1,597
1986		3,292		4,866,814		1,479
Total	16,590	9,018	9,550,000	9,612,622	533	1,007

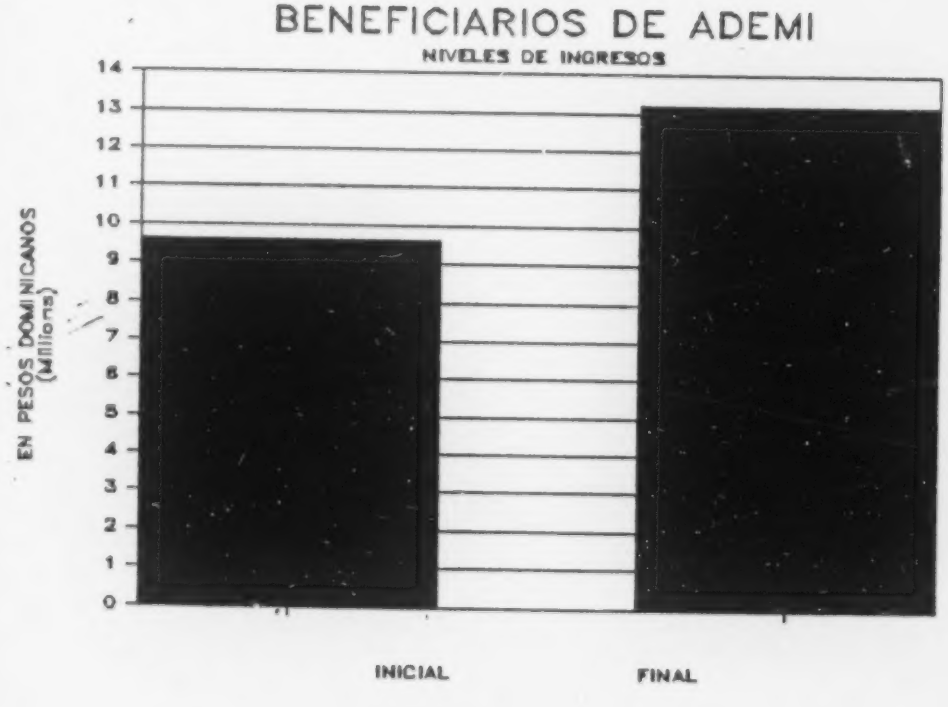

MONTOS A PRESTAR
MICROEMPRESARIOS
9550000
9812822
10
9
8
7
6
5
4
3
2
1
0
(Millions)
esperado
logrado
METAS

MONTOS A PRESTAR
GRUPOS SOLIDARIOS
1498000
1143871
1.5
1.4
1.3
1.2
1.1
1
0.9
0.8
0.7
0.6
0.5
0.4
0.3
0.2
0.1
0
(Millions)
esperado
logrado
METAS

CUADRO NO. 18
IMPACTO DEL PROGRAMA
NIVELES DE INGRESOS POR ACTIVIDAD
(Valores en RD$)

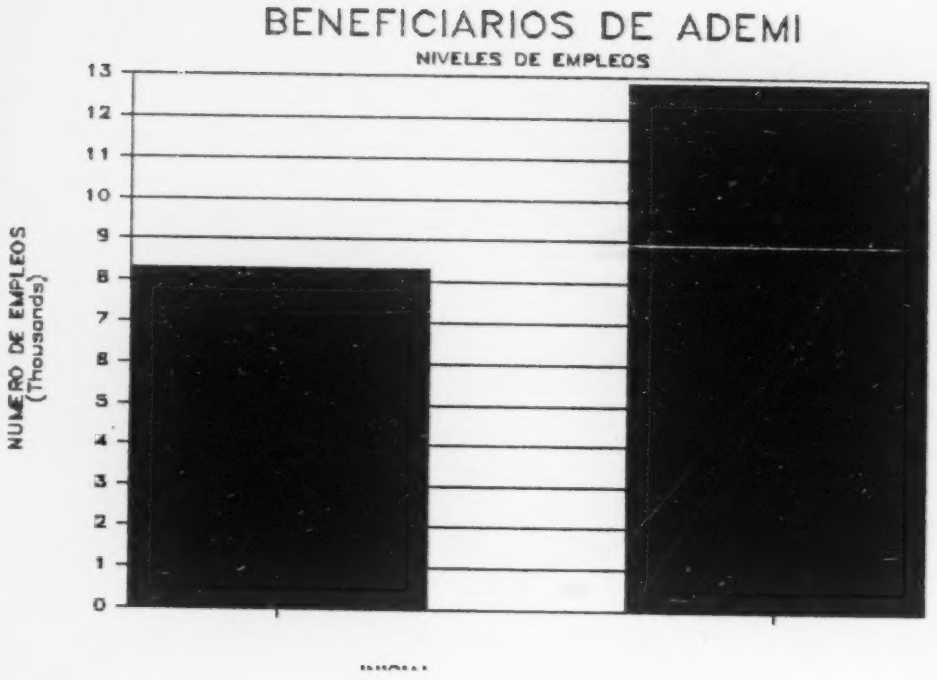
ACTIVIDAD	No. ME	Inicial	Inicial promedio	actual	Actual promedio	variacion total	variacion p/ME	variacion %
Alimentos	452	1,854,324	4,102	2,456,521	5,435	602,197	1,332	32
Artesania	126	364,681	2,894	521,924	4,142	157,243	1,248	43
Confecciones	628	1,484,451	2,364	1,856,238	2,956	371,787	592	25
Ceramica	65	154,462	2,376	227,903	3,506	73,441	1,130	48
Electricidad	77	229,997	2,987	226,523	2,942	(3,474)	(45)	(2)
Ebanisteria	420	1,704,884	4,059	2,611,646	6,218	906,762	2,159	53
Herreria	79	305,616	3,869	443,761	5,617	138,145	1,749	45
Hojalateria	12	21,050	1,754	20,182	1,682	(868)	(72)	(4)
Impresion	40	250,231	6,256	283,948	7,099	33,717	843	13
Joyeria	27	95,053	3,520	158,855	5,884	63,802	2,363	67
Mecanica	57	251,937	4,420	323,108	5,669	71,171	1,249	28
Refrigeracion	67	162,767	2,429	184,602	2,755	21,835	326	13
Serigrafia	11	33,344	3,031	68,599	6,236	35,255	3,205	106
Tapiceria	113	400,811	3,547	551,310	4,879	150,499	1,332	38
Zapateria y Pieles	214	780,346	3,646	1,225,234	5,725	444,888	2,079	57
Fabrica de blocks	42	195,387	4,652	206,379	4,914	10,992	262	6
Comerciales	82	219,001	2,671	438,870	5,352	219,869	2,681	100
Metalmecanica	30	271,083	9,036	247,277	8,243	(23,806)	(794)	(9)
Fundicion de metales	7	27,350	3,907	27,535	3,934	185	26	1
Varios	232	817,178	3,522	1,118,418	4,821	301,240	1,298	37
TOTALES	2781	9,623,953	75,043	13,198,833	4,746	3,574,880	1,285	37


BENEFICIARIOS DE ADEMI
NIVELES DE BENEFICIOS
EN PESOS DOMINICANOS (Millons)
4
3.5
3
2.5
2
1.5
1
0.5
0
INICIAL
FINAL


BENEFICIARIOS DE ADEMI
NIVELES DE INGRESOS
EN PESOS DOMINICANOS (Millons)
14
13
12
11
10
9
8
7
6
5
4
3
2
1
0
INICIAL
FINAL

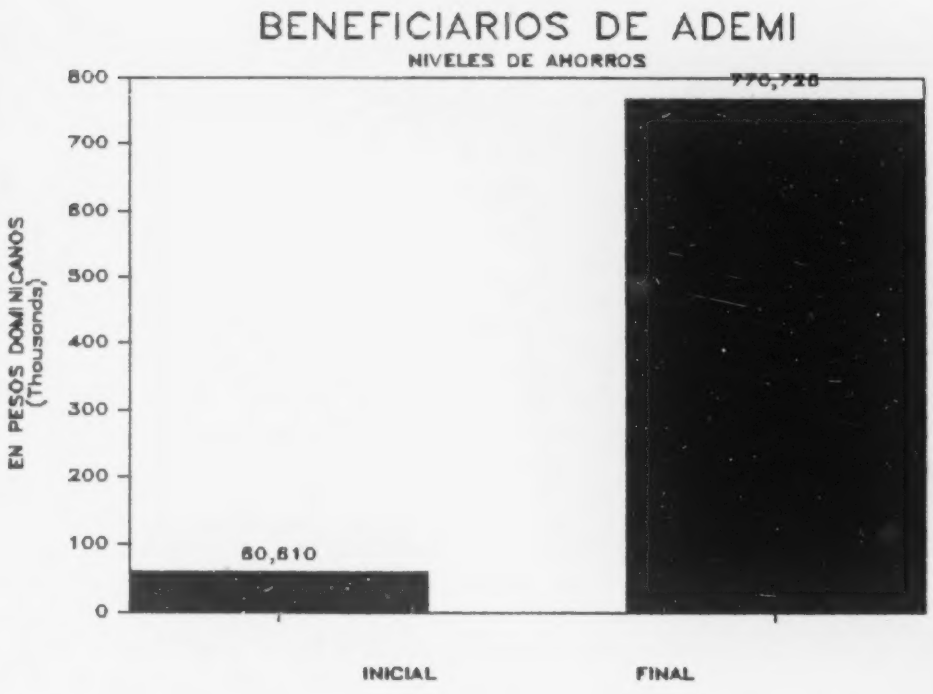
CUADRO NO. 20A: IMPACTO DEL PROGRAMA: NIVELES DE EMPLEOS Y SALARIOS
(Al 30 de noviembre 1986)

ACTIVIDAD	no. N E	Empleados Inicial	Empleados Promedio Incial	Empleados Actual	Empleados Promedio Actual	Variacion Total	Variacion p/NE	Variacion %	Salarios Inicial	Salarios Promedio Inicial	Salarios Actual	Salarios Promedio Actual	Variacion Total	Variacion %
Alimentos	452	1,126	3	1,511	4	441	1	32	338,950	297	480,254	306	147,940	36
		256		312					71,625		78,261			
Artesania	126	410	4	571	5	199	2	41	88,071	205	139,820	220	50,887	51
		75		113				0	11,530		10,668			
Ceramica	65	82	2	103	3	28	0	18	17,800	233	21,895	271	13,431	37
		73		80				0	18,310		27,646			
confeccion de ropa	628	901	2	1,086	3	258	0	19	312,582	334	345,643	319	61,598	14
		447		520				0	137,618		166,155			
electricidad	77	216	3	267	3	51	1	24	75,681	351	72,543	272	(3,138)	(4)
		0		0				0	125		125			
ebanisteria	420	1,455	4	1,848	5	394	1	26	481,822	334	528,389	290	48,680	10
		51		52				0	21,105		23,218			
herreria	79	351	5	373	5	20	0	6	72,547	208	124,361	330	51,074	68
		12		10				0	2,940		2,200			
hojalateria	12	24	2	36	3	12	1	50	5,798	242	5,392	150	(406)	(7)
		0		0				0	0		0			
impresion	40	129	4	172	5	44	1	29	56,595	404	56,859	315	264	0
		24		25				0	5,145		5,145			
joyeria	27	88	3	94	4	6	0	7	18,079	208	24,342	258	6,093	32
		3		3				0	830		660			
mecanica	57	278	5	313	5	35	1	13	84,867	305	91,320	292	6,453	8
		0		0				0	0		0			
refrigeracion	67	173	3	196	3	25	0	14	64,975	375	61,432	310	(3,543)	(5)
		3		5				0	975		975			
serigrafia	11	36	3	47	4	11	1	31	6,521	181	16,170	344	9,649	148
		0		0				0	0		0			
tapiceria	113	319	3	390	4	68	1	20	81,490	256	101,066	258	18,326	21
		20		17				0	5,180		3,930			
zapateria y pieles	214	862	4	1,102	5	242	1	28	189,366	220	252,825	230	64,314	34
		2		4				0	680		1,535			
fabrica de blocks	42	127	3	118	3	(9)	(0)	(7)	59,580	466	55,819	470	(3,761)	(6)
		2		2				0	580		580			
comerciantes	82	43	1	43	1	(10)	(0)	(16)	21,868	509	26,684	691	4,551	14
		20		10				0	10,185		9,920			
metalmecanica	30	147	5	164	5	17	1	12	61,278	417	61,842	377	564	1
		0		0				0	0		0			
fundicion	7	25	4	30	4	5	1	20	9,580	383	7,830	261	(1,750)	(18)
		0		0				0	0		0			
varios	232	523	3	649	3	153	1	25	176,523	335	207,510	317	37,438	19
		89		116				ERR	28,578		35,021			
TOTALES	2,781	8,303	3	10,382	4	2,079	1	25	2,539,379	306	3,048,043	294	508,664	20


BENEFICIARIOS DE ADEMI
NIVELES DE EMPLEOS
NUMERO DE EMPLEOS
(Thousands)
13
12
11
10
9
8
7
6
5
4
3
2
1
0

CUADRO NO. 22
IMPACTO DEL PROGRAMA
NIVELES DE AHORROS POR ACTIVIDAD

ACTIVIDAD	no. M E	inicial	inicial promedio	actual	actual promedio	variacion total	variacion p/ M E	variacion %
Alimentos	452	13,347	30	85,771	190	97,837	305	10
		240		25,653		40,068		
artesania	126	1,237	10	15,892	126	15,190	178	18
		0		535		7,298		590
ceramica	65	55	1	6,818	105	25,125	2,351	1,608
		40		18,402		127,680		34
confeccion de ropa	628	7,871	13	117,189	187	143,521	331	15
		6,144		40,347		64,501		11
electricidad	77	2,355	31	32,653	424	30,298	1,662	54
		0		0		97,638		47
ebanisteria	420	4,311	10	101,949	243	106,990	356	35
		15		9,367		42,681		40
herreria	79	1,903	24	35,232	446	33,404	437	18
		0		75		1,150		445
hojalateria	12	5	0	1,080	90	1,075	1,182	2,836
		0		0		13,107		31
iepresion	40	845	21	13,952	349	13,107	694	33
		0		0		14,653		17
joyeria	27	1,966	73	16,619	616	18,153	1,624	22
		0		3,500		25,702		18
aecanica	57	2,615	46	24,817	435	22,202	628	14
		0		0		13,584		27
refrigeracion	67	1,002	15	14,586	218	13,674	254	17
		0		90		3,347		22
serigrafia	11	295	27	3,552	323	3,257	2,086	78
		0		0		19,689		52
tapiceria	113	830	7	20,519	182	23,639	670	81
		100		4,050		52,074		26
zapateria y pieles	214	3,686	17	51,810	242	48,124	261	15
		0		0		7,697		128
fabrica de blocks	42	120	3	7,817	186	7,697	306	107
		0		0		5,175		29
comerciantes	82	405	5	5,580	68	6,423	446	90
		0		1,248		30,188		12
metalaecanica	30	5,000	167	33,940	1,131	28,940	994	6
		0		0		887		
fundicion	7	0	0	887	127	887	9,059	
		0		0		62,526		27
varios	232	4,850	21	67,376	290	70,573	339	13
		1,373		9,420		8,047		6
								12
TOTALES	2,781	60,610	22	770,726	277	710,116	255	12


BENEFICIARIOS DE ADEMI
NIVELES DE AHORROS
EN PESOS DOMINICANOS
(Thousands)
800
700
600
500
400
300
200
100
0
60,810
770,728
INICIAL
FINAL

CUADRO NO. 24
IMPACTO DEL PROGRAMA
NIVELES DE BENEFICIOS
(Valores en RD$)

ACTIVIDAD	no. M E	Beneficio Inicial	Beneficio Promedio Incial	Beneficio Actual	Beneficio Promedio Actual	V a r i a c i o n Total	p/ME	%
Alimentos	452	332,188	925	572,910	1,512	265,300	587	63
		85,872		110,450				
Artesania	126	85,981	764	141,294	1,203	55,376	439	58
		10,247		10,310				0
Ceramica	65	48,194	1,046	42,460	1,282	15,377	237	23
		19,789		40,900				0
confeccion de ropa	628	249,484	573	353,120	857	178,186	284	50
		110,272		184,822				0
electricidad	77	56,663	736	60,472	786	3,809	49	7
		47		47				0
ebanisteria	420	409,040	1,029	584,544	1,485	191,448	456	44
		23,297		39,241				0
herreria	79	74,387	979	114,770	1,484	39,889	505	52
		2,947		2,453				0
hojalateria	12	2,038	170	2,575	215	537	45	26
		0		0				0
impresion	40	79,172	2,041	98,464	2,524	19,292	482	24
		2,477		2,477				0
joyeria	27	23,113	910	62,934	2,372	39,478	1,462	161
		1,452		1,109				0
mecanica	57	56,737	995	94,034	1,650	37,297	654	66
		0		0				0
refrigeracion	67	37,813	592	56,781	876	19,018	284	48
		1,845		1,895				0
serigrafia	11	8,041	731	19,515	1,774	11,474	1,043	143
		0		0				0
tapiceria	113	84,773	808	141,915	1,306	56,217	1	62
		6,559		5,634				0
zapateria y pieles	214	129,555	608	301,467	1,411	171,765	803	132
		655		508				0
fabrica de blocks	42	41,237	993	50,558	1,215	9,321	222	22
		465		465				0
comerciantes	82	29,745	514	29,653	525	930	11	2
		12,362		13,384				0
metalmecanica	30	95,357	3,179	89,754	2,992	(5,603)	(187)	(6)
		0		0				0
fundicion	7	6,597	942	8,093	1,156	1,496	214	23
		0		0				0
varios	232	204,306	1,013	263,391	1,326	72,757	314	31
		30,615		44,287				
TOTALES	2,781	2,332,707	839	3,546,686	1,275	1,213,979	437	52

CUADRO NO. 25
IMPACTO DEL PROGRAMA
NIVELES DE ACTIVO FIJO POR ACTIVIDAD

ACTIVIDAD	no. M E	inicial	inicial promedio	actual	actual promedio	variacion total	variacion p/ M E	variacion %
Alimentos	452	1,579,903	3,495	1,999,558	4,424	446,896	1,598	38
		326,114		353,355		275,174		
artesania	126	272,192	2,160	520,125	4,128	259,689	2,660	88
		110,164		121,920		75,472		
ceramica	65	184,134	2,833	247,850	3,813	205,213	16,661	260
		232,398		373,895		877,741		
confeccion de ropa	628	1,465,087	2,333	2,201,331	3,505	(73,417)	(1,371)	(36)
		928,465		118,804		(787,788)		
electricidad	77	240,371	3,122	262,244	3,406	21,873	10,098	323
		100		100		755,697		
ebanisteria	420	2,609,181	6,212	3,364,878	8,012	790,667	2,285	36
		88,515		123,485		169,175		
herreria	79	382,463	4,841	516,668	6,540	134,205	1,698	33
		26,890		26,890		(93)		
hojalateria	12	11,696	975	11,603	967	(93)	52,767	5,414
		0		0		633,301		
impresion	40	931,728	23,293	1,565,029	39,126	633,301	17,623	61
		231,725		231,725		71,632		
joyeria	27	151,288	5,603	222,920	8,256	71,632	23,784	414
		3,800		3,800		570,535		
mecanica	57	595,603	10,449	1,166,138	20,459	570,535	11,649	111
		0		0		93,434		
refrigeracion	67	190,535	2,844	283,969	4,238	93,434	1,671	58
		2,500		2,500		18,506		
serigrafia	11	62,133	5,648	80,639	7,331	18,506	12,036	213
		0		0		113,895		
tapiceria	113	328,391	2,906	442,286	3,914	120,759	3,539	121
		1,251		8,115		279,182		
zapateria y pieles	214	784,773	3,667	1,057,091	4,940	272,318	1,612	44
		2,835		2,835		72,703		
fabrica de blocks	42	395,069	9,406	467,772	11,137	72,703	1,626	17
		2,350		2,350		(4,422)		
comerciantes	82	108,351	1,321	103,929	1,267	(2,563)	(8,482)	(562)
		15,509		17,368		(692,985)		
metalmecanica	30	1,933,048	64,435	1,238,204	41,273	(694,844)	(23,190)	(36)
				0		(865)		
fundicion	7	99,480	14,211	98,615	14,088	(865)	(16,995)	(120)
		0		0		(118,099)		
varios	232	1,361,821	5,870	1,243,722	5,361	(109,169)	(432)	(7)
		163,449		172,379		8,930		
TOTALES	2,781	15,660,362	5,631	18,654,092	6,708	2,993,730	1,076	19

MUESTRA DE BENEFICIARIOS

Nombre	No. Prest	Actividad	Cant.	Total	Nuevo I	Nuevo F	Nuevo Var.	SALARIOS Inicial	SALARIOS Final	SALARIOS Variac.	ACTIVOS FIJOS Inicial	ACTIVOS FIJOS Final	ACTIVOS FIJOS Variac.	VENTAS Inicial	VENTAS Final	VENTAS Variac.	BENEFICIOS Inicial	BENEFICIOS Final	BENEFICIOS Variac.	AHORROS Inicial	AHORROS Final	AHORROS Variac.
Hector Tejeda	992	Electromecanica	4	3,200	4	4	0	670	1,300	630	14,400	14,400	0	4,000	4,800	800	966	1,665	699	0	2,000	2,000
Angelica Maldonado	25	Fab. Nasitas	10	4,605	0	8	8	0	525	525	65	1,695	1,650	600	3,120	2,520	181	1,292	1,111	0	135	135
Jose R. Urena	70	Fab. de Zapatos	9	3,300	3	5	2	700	1,590	890	1,338	1,544	206	4,000	4,110	110	203	975	772	10	500	490
Carlos Alberto Bueno	110	Ebanisteria	12	19,600	4	7	3	900	2,700	1,800	4,740	10,000	5,260	6,000	10,000	4,000	1,020	6,350	5,330	5	50	45
Zoilo Castillo	165	Ebanisteria	11	11,700	4	10	6	480	2,100	1,620	11,915	17,145	5,230	3,000	16,500	13,500	325	6,350	6,025	70	225	155
Luis Carlos Martinez	185	Fab. Pastelitos	2	700	2	8	6	180	480	300	3,180	3,180	0	3,100	2,200	(900)	960	10	(950)	0	5	5
Manuel E. Warner	223	Fab. Zapatos	7	3,800	6	6	0	144	648	504	990	1,018	28	6,000	3,060	(2,940)	720	297	(423)	0	5	5
Ramona Avila	264	Confecciones	14	9,400	1	2	1	100	300	200	650	1,350	700	1,300	768	(532)	220	192	(28)	30	60	30
Francisca Javier	289	Confecciones	14	57,300	9	6	(3)	600	1,800	320	3,600	28,500	24,900	3,600	7,000	3,400	660	2,750	2,090	0	75	75
Manuel de Js. Santana	340	Dulceria	15	2,600	13	10	(3)	1,120	2,100	980	2,070	2,070	0	3,200	9,300	6,100	240	3,980	3,740	0	100	100
Bautista Ant. Santana	391	Ebanisteria	4	750	2	3	1	170	320	150	805	887	82	1,345	2,140	795	118	475	357	0	25	25
Elias Perez Mendez	430	Fotografo	11	8,400	1	2	1	150	360	210	2,328	3,120	792	2,200	4,500	2,300	290	2,592	2,302	0	300	300
Margarita Alt. de la Rosa	563	Confecciones	11	4,100	2	2	0	100	300	200	470	470	0	1,200	1,600	400	310	790	480	0	5	5
Herasgenes Ulloa	578	Ebanisteria	11	38,500	3	13	10	250	6,500	6,250	2,010	11,900	9,890	1,200	27,400	26,200	345	2,675	2,330	0	70	70
Pedro Cristoano	603	Fab. Velas	4	2,100	5	5	0	370	650	280	760	17,600	16,840	1,200	3,600	2,400	170	1,245	1,075	0	800	800
Juan Ant. Laroncuent	677	Imprenta	3	1,600	1	4	3	450	1,800	350	4,310	4,310	0	3,000	6,000	3,000	698	2,723	2,025	0	110	110
Jose G. Otano	719	Alimentos	5	2,150	7	1	(6)	240	240	0	1,800	2,200	400	1,300	2,700	1,400	460	1,110	650	0	25	25
Lorenzo Reno Norte	715	Fab. Zapatos	3	1,400	5	7	2	1,700	1,092	(608)	944	944	0	10,000	6,000	(4,000)	700	1,500	800	0	30	30
Domingo Leon	809	Funcicion	2	3,000	5	7	2	3,300	3,300	0	5,375	5,375	0	16,000	16,000	(8000)	3,375	2,670	(905)	0	0	0
Olga No. Urena	926	Fab. Pantalones	2	1,600	13	15	2	2,700	2,530	(170)	34,660	29,150	(5,510)	0	6,054	6,054	2,772	1,511	(1,261)	0	20	20
Leonardo Villanueva	813	Fab. Carteras	6	10,300	3	6	3	425	960	535	2,600	4,900	1,400	2,000	5,000	3,000	905	1,740	835	0	25	25
Julian Rojas	907	Alimentos	3	1,100	4	2	(2)	410	370	(40)	186	270	84	2,100	3,080	980	800	355	(445)	0	50	50
Daniel Martinez	948	Alimentos	3	4,800	2	1	(1)	850	850	0	3,000	10,000	7,000	4,900	3,800	(200)	2,225	1,025	(1,200)	0	1,000	1,000
Juan Bolen	ooooo	Freiduria	2	600	1	1	0	375	875	500	97	97	0	2,500	2,535	35	97	119	22	0	20	20
Analfo Rodriguez	ooooo	Ebanisteria	2	1,900	6	10	4	3,460	3,800	340	32,525	32,535	10	20,000	23,000	3,000	7,752	9,752	2,000	0	200	200
Adolfo Perez Rodriguez	ooooo	Fab. Sazon	3	6,000	8	8	0	1,600	3,000	1,400	6,000	14,500	8,500	20,000	31,300	11,300	6,268	12,045	5,777	0	50	50
Ramon Heraldo Ucata	646	Artesania	12	26,200	1	15	14	100	5,200	5,100	50	6,859	6,809	650	23,150	22,500	315	4,922	4,607	0	200	200
Teofilo Velasco Perez	163	Sastreria	7	10,900	9	7	2	600	250	(350)	1,125	8,979	7,854	3,019	1,300	(1,719)	805	250	(555)	10	100	90
Clara Esther Frias	139	Ceramica	7	4,100	4	5	1	380	800	420	5,700	7,500	1,800	4,000	5,600	1,600	1,645	1,380	(265)	20	20	0
Ruthanes B. Abreu	105	Ebanisteria	15	19,200	4	9	5	400	3,150	2,750	3,110	4,000	890	2,900	13,000	11,000	364	4,095	3,731	100	200	100

PREPARED STATEMENT OF JAYNE MILLAR WOOD, ON BEHALF OF BREAD FOR THE WORLD

Mr. Chairman and members of the Committee, I am Jayne Millar Wood, a member of the board of directors of Bread for the World and President of Devres, Inc., a development consulting firm in Washington. I am pleased to be able to represent Bread for the World at these very important hearings on legislation to direct more U.S. and multilateral assistance to micro-enterprises run by the poorest Third World people. Bread for the World is a 40,000 member grassroots Christian citizens' movement focusing on public policy issues relating to hunger, both here in the United States and abroad.

I bring to this hearing not only testimony in support of initiatives to encourage funding for micro-enterprises, but also many years of personal experience analyzing and evaluating a variety of development projects, including those aimed at micro-enterprises and also larger businesses for both AID and the World Bank. From both perspectives, I applaud the Committee's attention to ways our foreign aid programs can be targeted better to assist the poorest people in their economic activities.

Mr. Chairman, you and other members of this Committee have been at the forefront of efforts to channel more support to micro-enterprises. Your Committee's hearings last year, conducted jointly with the House Banking subcommittee on International Development Institutions, and your Committee's report, Banking for the Poor, laid important groundwork for micro-enterprise initiatives in this Congressional session. Congressman Gilman's introduction of legislation last year, and his work for a revised and expanded bill (H.R. 1032) this year, have focused increased attention on the need for broad-based support for micro-enterprise programs. Mr. Bereuter's diligent work last year in the Banking Committee brought the micro-enterprise issue squarely before the multilateral banks in ways that are being continued and expanded this year. We thank you for these efforts, and encourage you to continue the work that has just begun to bring new economic opportunity to poor people.

The Select Committee's basic focus, and Bread for the World's as well, is on hunger and how U.S. public policy can work to end it, here in the United States and abroad. Fundamentally, hunger is an issue of poverty, indicative of a lack of political and economic power on the part of the world's poorest people. To the degree our foreign aid program falls short of acknowledging and acting on that principle, it misses an opportunity to contribute to real development that benefits the poorest people.

Programs such as support for micro-enterprises can have a dramatic and positive impact on poor people, by giving them more control over economic resources and laying the groundwork for basic empowerment at the local level. There are numerous examples, in places like Kenya and Peru, the Dominican Republic and Bangladesh, indicating that when aid to micro-enterprises is properly targeted to reach poor people, there can be significant increases in income and jobs, and more hope for people who often lack ready access to the basic necessities to lead healthy, productive lives.

Why Micro-Enterprise?

Much of the important economic activity for poor people in the Third World occurs in the "informal sector," outside the scope of the measured, legal economy. This informal sector is a creative way for poor people to meet their own needs for goods and services, and for businesses in the formal sector to have a source of supply. In some Third World urban areas, as much as 60% of the economic activity occurs in the informal sector; in rural areas, as much as 45% of the work force

is involved in non-farm, informal activities. "Micro-enterprises" are the smallest of the businesses in this sector, typically with four or fewer workers and owned by the poorest people.

Poor people bring to their work in the informal sector a resourcefulness and commitment to better their own lives. They often have good skills, or can readily acquire them, through apprenticeships and other training in fields such as carpentry, needlework, food processing, and vending. They are adept at using to the fullest the resources they have, and are particularly good at marshaling sources of labor among their family and friends. Since they operate at the local level, they are well attuned to the needs of local consumers, and can adapt business practices to meet those needs. Perhaps most important, the poorest people are motivated to improve their economic situations. For all these reasons, support for the private enterprise activities of these people makes sense as a part of our nation's foreign aid program.

What Needs to be Done?

One of the greatest needs that micro-enterprises face is having access to credit (for working capital, equipment and other business purposes) at reasonable cost. Loans from moneylenders can involve interest rates as high as 200% a year, or even 20% a day. Commercial banks generally cannot meet the needs of these businesses, because banks usually require substantial paperwork and impose collateral requirements that the poorest people find hard to satisfy. Banks are also reluctant to take on the relatively high administrative costs of small loans to micro-enterprises, or to accept what they see as the risks of lending to companies run by the poorest people, despite evidence that well-administered programs of aid to micro-enterprises can yield very high repayment rates.

But credit is not the only thing that micro-enterprises need. If they are to become more sustainable, then the owners/managers of such enterprises may very well need some technical assistance, such as training in basic business practices, or in adapting the most appropriate technology to a given situation. This sort of assistance can make a big difference in the success of a micro-enterprise. The laws and customs relating to the role women play in economic life in a country can often prevent women from engaging in business ventures to the fullest extent possible. Hence, legislation that identifies and targets the particular needs of women and focuses on them as participants and beneficiaries is most helpful. Further, government policies that discriminate against small businesses, as compared with larger, more formal businesses, can tilt the scales against micro-enterprises. These policies need to be reevaluated.

Loan programs that work often have some common features: they are responsive to peoples' needs, provide flexibility in lending procedures (including few or even no complicated loan forms), use market-oriented interest rates, employ group solidarity through mutual guarantees of repayment, and encourage savings by borrowers to build up internally generated funds and enhance commitment. When projects adopt such features, they can result in encouraging gains for the poorest people: increases in overall income of 30% or more, loan repayment rates of well over 90%, and a new job created for each $500-$1,000 in a line of credit (which is generally cheaper than creating a job in large industry).

Mr. Chairman, despite the evidence of successful projects, and good economic and social returns, it is important not to "oversell" the micro-enterprise model. It is clear that the United States needs to do far more to recognize what is happening in the informal sector and to develop some creative responses to it. But this is not an argument that the informal sector is where all our resources and attention ought to be put. Some informal sector jobs are short term, transitory and low-paying, so there is also a need to encourage responsible growth in the formal sector if sustained development is to occur. Yet any approach that simply views the private sector in the Third World in terms of large, multinational firms or companies controlled by the elites misses a whole other dimension of economic opportunity for the poorest people. It is that dimension, in which poor people can exercise far greater control over their lives, that holds promise for enhancing the economic and political power of the most vulnerable people.

What can the multilateral development banks do relating to

micro-enterprise?

I want to spend a few moments discussing what the multilateral development banks (MDBs)--the World Bank and the regional development banks--have been doing, and what the opportunities are for them to become more involved, in the area of micro-enterprise. This is an important question because aid to micro-enterprises is not solely a bilateral issue. The amount of resources that the multilateral banks have available, and their expertise in financial matters, makes it logical that they should contribute to a campaign to assist the smallest businesses through credit aid and through technical assistance to allow them to use that aid more effectively. Furthermore, the banks' understanding of the importance of policy reforms could be useful in helping Third World governments analyze how their policies may adversely impact upon the smallest businesses. Yet institutionally, there are constraints to what the MDBs have been able to accomplish in targeting aid to micro-enterprises, in part because their procedures are so heavily weighted toward large, macro-scale projects and loans.

Perhaps the most effective work done thus far at the MDBs in the micro-enterprise level has been at the Inter-American Development Bank, through its Program for the Financing of Small Projects. The Program's goal has been to finance small productive ventures of low-income individuals or groups that do not have access to regular development or commercial credit. Loans are channelled through private foundations, coops and federations of coops, and other non-governmental institutions, and sometimes through banks.

Over the Program's life, projects have generated impressive gains in income and employment and have had generally positive effects on participants, including women. Indigenous non-governmental organizations have been strengthened in their roles as intermediaries. Because the focus of the Program is on "small" enterprises, only a portion of the project beneficiaries would be considered "micro-enterprises" under some definitions of that term, either because the businesses were not small enough or the people running the micro businesses were not among the country's poorest. It is important, however, to keep in mind that successful projects have been developed that do involve micro-enterprises and very poor people--that it is not necessary to focus on larger businesses in order to achieve solid economic gains, or to succeed in the social empowerment of the people involved with the micro-enterprises.

One concern about the IDB experience is that it is not clear that the results of the Small Projects Program have been disseminated and accepted within the Bank as a way of focusing more of the Bank's overall resources on projects that help the poorest people. An indication of this concern is that in 1986, the Small Projects program was responsible for $4.5 million in new lending, out of total new commitments at the IDB of over $3 billion. Regrettably, the amount allocated to small projects has been decreasing over the last few years, rather than expanding. It's quite apparent that these small projects are still a fairly minor part of the IDB's operations, but one that provides some hope that, with the proper degree of commitment, MDBs can in fact administer a successful program targeted to small and micro-enterprises.

Regarding the World Bank, it is clear that the Bank itself recognizes it has not done a great deal to support micro-enterprises. A report surveying World Bank lending to small enterprises, prepared last year by Jacob Levitsky and published by the Bank, said:

> In most cases Bank lending to [small and medium sized businessses] has not benefitted the very smallest enterprises although in a few cases a limited amount of lending has been oriented to these "microenterprises" (Nepal, Sri Lanka, etc.). In order to channel more funds to subloans of less than US $5,000, to units with less than US $10,000 in assets, changes would need to take place in World Bank procedures, choice of intermediaries, conditions of lending and project preparation. Closer collaboration with private voluntary organizations may be necessary to achieve this. In all regions there is increasing demand to assist these very small microenterprises.

There are several interesting observations in this brief quote that deserve comment. The first is the acknowledgement that the demand for

help is increasing "in all regions." Our information is that this is an accurate statement, because even though the forms of assistance, the intermediaries needed, and the skills of entrepreneurs may differ from region to region, people in all parts of the world, in urban and rural settings, are today helping themselves to better their economic lives. Those who can are also looking for assistance elsewhere, and that is where the legislative proposals you are considering come into play. It is interesting to consider that the one region that has been perhaps the last to recognize the need for more aid to micro-enterprises has been our own--and it is voices like those on this Committee that are changing that situation.

Mr. Levitsky's report also notes that the World Bank's orientation needs to be changed if it is to lend even to businesses that are substantially larger than micro-enterprises. A $5,000 loan would be enormous to a micro-enterprise--indeed, lending that much to a business that really needs only a few hundred dollars would almost assuredly be counterproductive. The fact that significant changes would need to be made for the Bank to deal effectively with small-scale loans is an indication of the absence of an effective mechanism at the Bank to deal with the kinds of commercial activities in which the poorest people engage.

Bread for the World is concerned, Mr. Chairman, about the general issue of the World Bank's poverty orientation. This year, with Congress considering a proposal for an increased replenishment for the International Development Association, the time is ripe for a critical evaluation of how well the Bank, and IDA in particular, is doing in meeting the needs of the poorest people. Lane Vanderslice of the Bread for the World staff has recently prepared a Background Paper that discusses the World Bank and IDA, offering suggestions on how the Bank might better serve the needs of poor people.

I am pleased to see that in at least one respect, Dr. Vanderslice and Mr. Levitsky from the Bank seem to have a common understanding. That is that the Bank, to be more effective for poor people, must make better use of private voluntary organizations, particularly in our view indigenous non-governmental organizations (NGOs). Without increasing its involvement with these NGOs and incorporating their expertise more carefully in the Bank's operations, it would be very difficult for the Bank to channel aid effectively to poor people for the purposes they identify for themselves. Without the involvement of indigenous NGOs, and without the critically-needed support the World Bank can provide to them, the long-term sustainability of projects is in question as well. The Bank has begun to expand to some degree its work with indigenous NGOs, and is experimenting in Brazil, for example, with some income-generating activities in which local communities, working through these NGOs, will have a major say in the kinds of enterprises that will be supported. But this certainly does not signal a major change in the Bank's operating style, and much work remains to be done to overcome the strong tendencies in the Bank toward non-project aid as well as the Bank's traditional approach of supporting large-scale projects that are administratively easier for its staff to manage.

What I suggest to you, Mr. Chairman, is that greater emphasis on micro-enterprise lending by the World Bank and the other MDBs is long-overdue. I commend to the Committee the idea that micro-enterprise, as compelling a concept as it is, is simply a means to an end--which is to find as many effective ways as possible to direct more foreign aid resources, multilateral and bilateral, to helping the poorest people, those who are most vulnerable to hunger, disease and the tragedy of lives cut short. There are no short-cuts or quick fixes, but we need to move steadily toward that goal, and well-administered micro-enterprise programs can move us a good ways along.

Legislative Approaches

Bread for the World supports H.R. 1032, the Comprehensive Micro-Enterprise Credit Promotion Act of 1987. This bill provides an innovative approach to supporting micro-enterprises that are run by the poorest people in the Third World. It designates a portion of the local currencies that foreign governments pay for U.S. non-emergency food aid for use in grassroots credit projects through the U.S. Agency for International Development (AID). The bill also proposes that special funds be established in each of the multilateral development banks for

micro-enterprise credit programs, and that loan guarantee programs be a part of the World Bank's structural and sectoral adjustment lending. Bread for the World appreciates the efforts undertaken by Rep. Benjamin Gilman and the other cosponsors of this bill to find ways to direct more funds to micro-enterprises in Third World countries.

Over the past eight years, AID has done a series of very useful pilot projects aimed at improving our understanding of the role micro-enterprises play in development in the Third World, and AID has also worked to develop better capacity in indigenous NGOs to deal with lending at the grassroots level. At the multilateral level, IDB's work has demonstrated how to deal with small-scale lending programs. It is time now to use the lessons of those efforts in a more broad-based, adequately funded part of our nation's foreign assistance program.

H.R. 1032 emphasizes certain important parts of a micro-enterprise program. As currently structured, it:

--targets assistance to the smallest companies controlled by the poorest people, so that its benefits have the greatest likelihood of reaching those who are most in need;

--recognizes that institutional development of effective financial intermediaries, and technical assistance and training for borrowers, are vital parts of any program of credit assistance to micro-enterprises;

--requires consultation by intermediaries with potential borrowers, to ensure responsiveness to their needs;

--states that women should be major recipients of loans, because of the critical role that women play in sustaining the well-being of families and in performing vitally-important economic tasks in developing countries.

The bill also places primary emphasis on using indigenous non-governmental organizations as intermediaries, both as a way of ensuring responsiveness to local people and as a way of developing sustainability for the projects after external assistance is reduced or removed. We would note that the bill provides flexibility in the use of indigenous NGOs, in order to reflect the very useful role that other institutions, including U.S. and other international private voluntary organizations, might play in helping to develop capacity in indigenous NGOs. Over time, we would hope that support for the poorest people through indigenous NGOs in programs such as these could become an increasingly important part of U.S. foreign assistance activities. Certainly, in defining a micro-enterprise, or an indigenous NGO, or the poorest people, one needs to be careful not to arbitrarily exclude people or institutions that really are part of the target group by having too narrow a definition. But one also needs to be careful not to expand definitions to a degree that only the wealthiest or most established or most powerful elements of the covered groups receive the benefits.

The MDB provisions are important in the bill, not simply because they expand the range of eligible countries beyond those that are recipients of Title I, PL-480 food aid, but also because they marshal the formidable resources and expertise of the multilateral banks in pursuit of more effective ways to help the poorest people. The bill requires the U.S. Executive Directors to the various MDBs to negotiate within each bank for the creation of special funds for lending to micro-enterprises that are owned by the poorest people. Congress would monitor (and this is a key to its success), through regular reporting, the progress of those negotiations and the micro-enterprise lending that occurs within each bank. The bill specifies that the fund within IDA would be set at $75 million, and then maintained annually at that level, with the goal of expending that much each year. Each bank would formally consult with indigenous NGOs in setting up its micro-enterprise program, and would put primary emphasis on using indigenous NGOs as intermediaries. The bill states that the effectiveness of the micro-enterprise programs in each bank should be monitored, and appropriate research done, and, with respect to IDA, the bill allocates $1 million annually for each such purpose. I can say, Mr. Chairman, from my own experience that monitoring of results and wide dissemination of information is extremely important, and I think these provisions are

a vital part of the bill.

The bill also requires the U.S. representative to work within the World Bank for a greater overall commitment by the Bank and IDA to poverty alleviation activities. This addresses the point I raised earlier about the need to see micro-enterprise lending as an example of how assistance can more directly focus on the poorest people. In addition, the bill directs the U.S. representative to the World Bank to propose that a portion of the proceeds of structural and sectoral adjustment loans be used to set up reserves for guarantee funds in recipient countries that would ensure repayment of up to 90% of the loan liability for loans to micro-enterprises made by NGOs and other financial intermediaries.

Bread for the World has been concerned about the effects of structural adjustment lending on the poorest people in recipient countries. This proposal for a guarantee fund, which I understand Mr. Bereuter in particular has raised, would be one approach that could be discussed and tested as a means of targeting aid to businesses owned by poor people. My understanding is that some guarantee funds have worked well with small-scale, grassroots businesses; other guarantee arrangements have been less successful when the financial intermediaries have continued to insist on rigid collateral, paperwork and repayment requirements, despite the guarantee backing up the loan.

H.R. 1032 also urges countries receiving World Bank structural and appropriate sector and project loans to re-evaluate and take steps to remove barriers to credit for micro-enterprises. This examination of policy-oriented factors in supporting micro-enterprises could, in some countries, do a great deal to enhance the success of micro-enterprise initiatives occurring at the local level.

Regarding the bilateral provisions of the bill, we believe the funding level (projected at approximately $55 million annually for the next three years, assuming FY 1987 Title I levels and full use of the section 108 program) is a realistic one. We also believe that the use of local currencies generated by existing U.S. bilateral loan programs is an effective way to allocate aid resources to assist micro-enterprises, without adding significant new repayment obligations on Third World governments. As a starting point, the section 108 program, that targets a portion of Title I, PL-480 reflows for private enterprise initiatives, is an appropriate source for help to the smallest private sector ventures in developing countries.

Bread for the World welcomes this opportunity to provide views to the Committee, and we appreciate the Committee's interest in legislation that seeks to address the needs of the poorest people in developing countries. We recognize that this year, Congress is looking at a variety of approaches to this critical issue, including the Gilman bill, H.R. 1032, and the Feighan bill, H.R. 910. In supporting the Gilman bill, Bread for the World also encourages full discussion of each of the innovative proposals now being debated, as a way of finding the most effective means of helping the neediest people.

PREPARED STATEMENT OF DAVID C. RICHARDS, DIRECTOR, NGO DEVELOPMENT PROGRAM, INTERNATIONAL INSTITUTE FOR ENVIRONMENT AND DEVELOPMENT

Mr. Chairman,

Thank you very much for the opportunity to provide testimony before the Select Committee On Hunger.

My comments will focus on the role of indigenous non-governmental organizations (NGOs) as financial intermediaries to provide credit to poor people in developing countries for micro-enterprises. I will describe their carrying capacity, their special assets and liabilities, and their potential to become non-formal financing institutions. I will conclude with brief summaries of a few successful indigenous NGOs with valuable experience that could provide insight to those considering HR 1032 and HR910, and with a few comments on the intended legislation.

I'll begin by congratulating the authors of the propsoed legislation. The objective of empowering the poor by providing opportunities for individual and group enterprise is a powerful one. I hope that the final form of the bills will be guided by the hard won experience of those organizations here and abroad which have been struggling to provide people with increased income through direct ownership of micro-enterprises or employment through slightly larger enterprises in which they have some kind of stake.

Successful micro-enterprise can generate a significant surplus for poor people which goes beyond meeting their basic need requirements for adequate food, water, shelter, and clothing. This surplus is the key means by which the 'cycle of poverty' can be broken because it can result in savings, the essential ingredient for sustained individual economic change. A surplus is the foundation for the creation of wealth, and the sum total of 'small scale wealth creation' is an important engine for national economic development.

Experience has taught us that micro and small-scale enterprises are superior to their medium and large-scale counterparts in increasing productivity. They use a higher proportion of locally produced inputs, employ more workers and produce greater output per unit of capital. They are suitable for location in rural areas and market towns, can use technologies appropriate to local factor proportions, can serve specialized local markets efficiently and flexibly, and are characterized by a high degree of backward and forward links with the local economy.

We know this, but our problem has been how to stimulate micro-enterprise development and how to make the opportunities inherent in them available to those in need. Loaning money to the poor can not be taken lightly. They are engaged in a survival strategy, and asking them to go into debt for approximately 50% of their annual cash incomes for a venture that may or may not succeed is weighty. Unfortunately, there are thousands of examples of failed micro-enterprises sponsored by well qualified organizations, with the result that their client's survival strategy became even more precarious. Who is best positioned to avoid this, and who can work with the poor so that the fundamental principles of enterprise, especially those related to product and market, are not violated? Unhappily, these principles are scale neutral and apply to all enterprise no matter how small.

Non-Governmental Organizations

Every institution has a role to play in increasing the productivity of the poor, but indigenous non-governmental organizations, including private voluntary organizations, can play an especially critical role in delivering enterprise opportunities. Central extension services, private marketing channels, financial institutions, and policy groups try to reach the poor, but in general they appear to fall short of the mark. Why? Technology developers often underestimate the complexity of the problems of the poor; extension workers are often diverted by the local power structure; marketing experts are usually persuaded that effective demand of the poor is too limited to work with; and policy entities often ignore the politically impotent appeals of economically disadvantaged groups. In many cases, local NGO's fill the gap in providing development services.

These types of organizations are local area institutions, usually serving more than one village but usually less than a province or a state. There are thousands all over the world, and there are thousands more that could come into existence if a helping hand were extended. Looked at as a group, they have some fundamental operating principles that make them successful. They:

- see development is terms of increasing productive resources rather than in terms of rapid, short term economic growth;
- create and strengthen small local (village) organizations to sustain economic development;
- believe that development activity must be derived from within a community, and not be introduced without adaptation to its social and resource environment;
- assume new functions and programs in direct response to beneficiary demand;
- steadily shift responsibility for activity to end-user groups as their capacity develops;
- look upon enterprise development as part of an integrated community development program and do not artificially isolate it;
- remove barriers to effective communication between service providers and users;

and

- recognize errors and correct them.

NGO's have special 'capital' because they have:

- well established, credible assistance relationships with the poor;
- demonstrated willingness to work with the poor - to stay present and resident in their environment;
- demonstrated willingness to test innovative approaches to solving development problems
- credibility with clients, which is a very high value item according to evaluation literature of failed projects.

In most cases, micro-enterprise development is not the central component of NGO programs. Their origins lie in social services delivery related to health, education and meeting basic needs. They played the role of delivery channel for services subsidized by the government and international philanthropy. In many cases, they were very effective, and worked in areas where alternative extension services could not reach.

But the current situation has changed:

- o NGO clients are expressing the need for income and employment opportunities that go beyond social services delivery;
- o NGOs are responding to the international trend towards scarcity of development funds;
- o NGOs have reached a point on their institutional learning curve that informs them that long-term subsidized programs create dependency, quite the opposite desired outcome;
- o NGOs are searching for strategies to sustain the gains realized through services already rendered.

Typically, eliminating or reducing dependency is translated into a need for self-sustaining income generating activity, and that usually means enterprise and business, the art of generating a saleable surplus.

NGOs all over the world are interested in making the transition from social services delivery agencies to village economic development institutions. While many posses the positive characteristics outlined above, most bring serious liabilities to promoting small scale private sector development. Major ones are:

- o few entrepreneurs on the staff - results in little entrepreneurial savvy;
- o little appreciation for the relationship among fixed and variable costs and the production and sales levels required to cover these costs to generate a sustained surplus, even at the micro-scale;
- o lack of enterprise record keeping skills;
- o little experience in dealing with enterprise oriented vested interests - those forces in a community that can so powerfully effect the process of change;
- o overly optimistic regarding marketing opportunities for the products or services of new or expanded micro enterprises;
- o often underestimate the level of effort required to undertake small scale enterprise support activities.

But the assets outweigh the liabilities. NGOs are all at some point on a learning curve between not knowing anything about small scale enterprise promotion and providing program models for how it can be effectively done.

I prepared the following chart to summarize the characteristics of institutions implementing cost-effective small enterprise support programs. These were contrasted with institutions which are trying, but have not achieved success. A learning curve like the following emerged. Novice characteristics are on the left, experienced/effective on the right.

SED Learning Curve

systems not designed to keep pace with entrepreneurial decision making;	support system available when required;
view universe as potential entre-preneurs;	select growth oriented entrepreneurs from the universe;
sustainability of assistance mechanisms unaddressed;	sustainability addressed in concept design;
work horizontally with a single level of enterprise;	work vertically with many levels of enterprise;
work independently - include all necessary services within project;	organize and collaborate with existing resources;
increased production is singular focus;	increased production and > margins through business efficiency are balanced;
not market oriented;	market is origin of enterprise idea;
business decisions based on social felt needs;	decisions based on potential of enterprise to support social gains;
90% of staff have sociology backgrounds;	mixed sociology/business backgrounds;
project oriented;	program oriented;

SSE Experience Through Time

The challenge is to develop the means whereby NGOs can accelerate their movement on the learning curve so that their potential to play a more significant role in making productive opportunities available to the poor through micro and small enterprise can be realized.

A significant part of the porposed legislation's agenda must be the institutional development of indigenous NGOs who could contribute to decentralized small-scale private sector development. Institutional development means improved ability and performance in several key functional areas. These include:

setting goals and objectives
planning and programming
budgeting
implementation
credit management
micro-enterprise appraisal
micro-enterprise technology choice
natural resource management
administrative and financial controls
communications

Developing Local Financial Institutions

Enterprise opportunities are not going to reach the poor if can't resolve the issue of capital provision--credit. Many projects try to solve this problem by becoming banks themselves. They establish loan funds, manage a portfolio, and even become collection agencies. With a few notable exceptions, this only works for small projects, and it places heavy stress on NGO carrying capacity. These temporary financial institutions engender little confidence among the poor because everyone knows they are transient. Which of us would place savings in a 'bank' that might not be around when the sun rises for one reason or another.

This problem can be addressed by working with financial institutions which have a track record of providing low cost, dependable financial services to the poor, or by establishing non-formal banks through projects which can be present for the long term.

Ae goal of some aspects of this leglislation could be to lay the' foundation for an expanded non-formal banking program which indigenous and international PVO's could develop and manage, and which could be a vehicle for promoting innovative approaches to micro and small enterprise financing. Many organizations have successful small-scale credit programs - the challenge to find a way for the best elements of these programs to be incorporated into appropriate financial institutions that can stay active for many years.

In spite of the apparent value of micro and small enterprises, especially rural-based small-scale agribusinesses, they are generally unsuccessful in obtaining adequate credit through normal commercial lending channels and the rural banking system which is often designed specifically to meet their needs. Most commercial lending institutions in LDC's come to the conclusion that statutory interest rates are far too low to compensate them for the high costs of providing credit to small enterprises. Their costs of screening applicants, processing applications, dispersing funds and collecting payments would be greater than the total amount of outstanding principal and interest. It is difficult for them to find alternatives for collateral to guarantee repayment.

As a result, micro and small-scale entrepreneurs are restricted to a relatively few credit programs sponsored by local or international agencies, to family and friends, or to traditional money lenders who charge interest rates that a small growth enterprise usually cannot bear. Only a small fraction of the capital requirements of the small scale private sector are covered by these means, and thus the contribution that small enterprise could make to local and national development is diminished. Effective banking remains a key constraint to changing this situation, and means have to be found to:

- o drastically reduce credit transaction costs;
- o design imaginative alternatives to conventional collateral;
- o keep default rates at acceptable levels;
- o develop financial institutions that effectively adjust their services and approach to fit the local environment;

and

- o make rural banking profitable and attractive.

Unfortunately, the means have to be found which apply to many different situations. Single models, so matter how inspired, will work everywhere.

Characteristics of Successful Non-formal Banking

For the record, I've tried to summarize characteristics of successful non-formal banking programs supporting micro-enterprise development I have seen in various countries. They are termed non-formal because they work at the boundaries of conventional banking practices and because they often incorporate traditional patterns of lending and savings. After clustering characteristics of success, a modest but informative list emerged that indicates the kinds of organizations this legislation will have to work through to achieve its objectives.

Successful non-formal banking systems possess the following characteristics to one degree or another:

- o Highly motivated employees with positive attitudes regarding their work with economically disadvantaged people. Motivated employees are the result of a well developed screening and training program, and a system of incentives that recognizes superior performance. The result is high productivity.
- o Results oriented employee incentive systems which clearly provide financial and recognition rewards for superior performance in establishing and managing profitable loan portfolios. In this way, the system can employ more trained people at a low base pay who have room to create their own rewards by producing results.
- o Banking environments which reduce or eliminate intimidation and overcome people's natural disinclination to come to a financial institution. This is accomplished by not emulating the ambiance of a formal urban banking institution in a rural area, and by having transaction 'windows' where clients naturally gather which overcomes the often noted problem of 'location dysfunction'.

- Combination of formal and informal credit, interest, and collection systems. This is accomplished by keeping banking and credit procedures closely in tune with the systems with which clients are already familiar, including traditional forms of saving and lending.

- Linkage with a savings program which reinforces the value of the loan system. Savings are the means by which economically disadvantaged people can begin making investments in their own financial futures.

- A balanced portfolio of loans to small and medium enterprises that run from high to low risk, and a small percentage of lending capital available for consumer lending.

- Consistent use of simplified enterprise and market analysis tools permitting low cost appraisal of small scale business ideas. Determination of simple break-even and a one year summary cash flow appear to be the elements that have significantly reduced failures. This is often incorporated in a brief business plan in which the borrower considers what alternative combinations of inputs at what cost will produce what yields and profits.

  Enterprise viability is emphasized over guarantees and collateral.

- Presence of simple, straightforward, clear, well indexed operational procedures to which staff can easily refer to resolve procedural questions. The mix of procedures and services is reviewed and adjusted annually so the system becomes fine-tuned to the local environment.

- Decentralized decision making relative to formal lending counterparts.

- Speedy financing and refinancing response times that keep pace with the cash flow needs of the client enterprise.

- Effective credit recovery systems including group repayment responsibility, long term smaller payment loans, and legal collection procedures.

- Completion of a financial plan for the banking business which establishes it as a viable, sustainable enterprise prior to beginning operations. Most important points identified by successful lending institutions included determining levels of charges, volume of services required to break-even, and start-up costs. An important factor was basing interest rates on the real cost of doing business with no long-term subsidies built in.

While credit recovery does not seem to be an issue with the Grameem Bank's program, it has been the single most difficult problem faced by many other micro and small enterprise financing programs. Effectively addressing it has required a blend of sociology, attitudinal adjustment on the part of lenders and borrowers, good program start-up policies which anticipate the problem and strong ongoing procedures. Short cuts won't work.

A short list of principles that organizations providing small credit to large numbers of people includes the following:

-- a clear operating framework which establishes that the credit system is not a giveaway program and that penalties, both legal and traditional, will be imposed on delinquent-without-sufficient-cause clients;

-- completion of character reference checks on each client;

-- testing the ambition of clients by having them complete significant tasks in connection with the loan application, usually related to market and financial feasibility analysis or to the ability to think these things through;

-- whenever possible, clients are asked to put up physical collateral;

-- loans are broken down into the smallest reasonable increment to test the competence of the client and to provide maximum incentive with minimum risk;

-- should there be a default-without-sufficient-cause, the client is ineligible for additional loans and penalties are enforced, including legal action and collateral confiscation;

-- peer and group pressure is effectively employed to encourage timely repayment;

-- concurrent savings are required to put capital to work, and to enlarge the deposit and guarantee base of the credit fund;

None of the banking programs reviewed incorporated all of the characteristics mentioned on the preceding several pages, but the majority of successful efforts had elements of most although sometimes unconsciously. Success criteria include:

- o repayment rate of 93% or above;
- o operating close to or above break-even point;
- o demand for financial services increasing annually.

Tools to Implement Credit/Small Enterprise Programs

Even if we are able to establish well functioning means to offer credit to millions of poor people, the task of selecting enterprises and enterprise sectors to support remains. Unhappily, few real tools are available to the generalist who is represented most heavily indigenous NGOs that can help identify, appraise and support specific micro and small enterprises. Usually we have to hire some naturally talented entrepreneur to help out, to pass judgement, and to use a sixth sense to cull a good idea form the dozens of bad ones. The basic question for NGO staffs charged with implementing SED activity is what needs to be done at 8:00 Monday morning when its time to get started. Getting properly started appears to be a great determiner of where one ends up. Tools are needed to aid the process.

I will only mention one that is directly relevent to the legislation proposed. It is called enterprise mapping and can be used for micro or small scale ventures. If properly developed, it could aid NGOs to development large scale micro-enterprise programs that are based in strategy rather than good intention.

Small Enterprise Mapping: Small enterprise mapping is a systematic survey of village clusters or some other defined, relatively small area. The purpose of mapping is to identify possible new or expanded businesses that would not be obvious otherwise. It is a tool to bring fragmented information - anecdotal, survey, or research - together to make decisions regarding what kind of enterprise support to provide. It forces the program to link production ideas with local, near, and distant markets so that sales potential becomes the key decision factor. Localized over-production of crops and manufactured goods is the bane of income generating projects worldwide. It also forges links between different sizes of business, another key deficiency of many programs which work with only one scale of enterprise in direct contradiction to how trade and manufacturing really work.

The objective of enterprise mapping is to bring into focus opportunities and constraints that do not emerge with a less systematic approach. It is the art of seeing something that isn't there yet. The basic technique is as follows:

- o natural resources are inventoried to determine the relative abundance of under-utilized non-cultivated raw materials;
- o agricultural commodities are inventoried to estimate the availability of raw materials for value adding processing;
- o soil is analyzed, and available data collected regarding climate, rainfall, wind, and other environmental factors that could suggest cultivation of low volume but high value speciality crops amenable to value adding processing;
- o existing entrepreneurs are interviewed to determine constraints, expansion opportunities, and marketing channels. The point is to find out what existing entrepreneurs would like to do if they could. This self-defined objective has yielded a suprizing amount of good quality information, and any assistance provided is supported by the motivation of the entrepreneur.
- o samples of the population who are not entrepreneurs are interviewed to identify latent enterprise talent, and to reveal key attitudes regarding entrepreneurship;
- o existing marketing places in local, near, and more distant places are visited to determine unmet demand;
- o any programs to support agricultural production, cottage industries, or infrastructure development are visited to determine what influence they might have on enterprise development in the targeted areas;
- o samples of the population in local and near places are interviewed to identify products which they want but do not have access to;
- o a survey is made of sources of power required to support small scale processing and manufacturing.

With this information, a small team begins to assemble a picture of enterprise opportunity in the target area. With a good knowledge of constraints, the team establishes a list of products for which there appears to be a demand. These are broken down into three groups - immediate, medium term, and long term development potential. The team considers:

- o the competition, and how it will influence the volume and price of the proposed products;
- o the technology required to undertake the enterprises suggested - where it is currently available, the level of training required to use it, the amount of development required, and the cost;
- o the infrastructure needed to support the enterprises regarding energy, transportation and maintenance;
- o the market channels needed to ensure the products can move at best advantage;
- o the level and types of training and other support the enterprises require;
- o the use of successful enterprise development models from other countries facing similar constraints;
- o the supporting or constraining role government policy might have on the enterprise ideas suggested.

The enterprise mapping exercise also identifies the technologies that need to be focused on. The number will be limited, and their potential clear. It also implies the kind of extension program, training, staffing, and other services needed to support the program.

Examples of Encouraging Micro-Enterprise and Nonformal Banking Programs

The Grameen Bank model has already been presented. Others the staff preparing this legislation might look at include:

The Working Women's Forum Bank in Madras, India: This is an urban bank which serves 10,000 economically disadvantaged women, most of whom earn their living through micro-enterprise. The WWF Bank is staffed by former clients who have been trained to use simplified banking procedures, so overhead costs are kept very low. The physical plant is very modest, and all operating costs are kept at a minimum level. The board of directors includes former clients who have exhibited natural management and leadership skills. Credit is primarily for business loans, and several forms of collateral guarantee are available ranging from character to group payback responsibility to personal property. Services include identifying subsectors for micro enterprise development, small business consulting, and assistance in getting required permits.

The WWF Bank is successful because its services, costs, and operations style are well attuned to its clientele and because it has an effective accounts recovery system.

Rural Corporations For Small Enterprise Development - Turkey

The Turkish Development Foundation (TDF), incorporated in 1969 as a private, non-profit development organization, began its poultry-raising operation in the early 1970's with just five farmers in the Taurus area. By 1985, a total of five hundred farmers, spread over ten regions, were producing 10 million broilers, one out of every six produced in the country. Planned production is to double again by the end of 1987.

The TDF model is aimed at very small plot farmers. The entire system is completely integrated and covers all aspects of the broiler business, from grandparent stock to feed production to marketing. At the same time, the system makes possible effective participation of the broiler producers as equal shareholders in a regional poultry supply and processing corporation, providing a mechanism for broadly-based profit-sharing.

The TDF poultry production and processing system works like this:

First, the TDF extension agents select and train individual farmers in the techniques of modern poultry raising. They put up a broiler house with a capacity of 4,000 birds per cycle, with the help of a loan from the Ziraat (Agricultural) Bank. when there are a minimum of 20 farmers in one district - the maximum is 100 - the farmers form a corporation. Only poultry farmers may be shareholders, and each farmer buys an equal number of shares.

Then the Ziraat provides a second loan, to the Corporation this time, to put up poultry processing, cold storage, and feed units. Four centrally located hatcheries with parent stock farms belonging to the regional farmer corporations produce all the day-old chicks required in the program. The farmers receive the production inputs (day-old chicks, feed, medication and so forth) and technical advisory services from their corporation, and they deliver all their live broilers to the corporation's processing plant.

The corporation's accounting office keeps records for the individual farmers, and handles the farmers' loan repayments to the Agricultural Bank by means of deductions on payments due to the farmers upon delivery of the live birds.

Any profits earned by the corporation go to the farmer shareholders as dividends, but only after the TDF deducts what the corporation owes on its loan. That is why there is seldom a loan default. The TDF has gone on to use the same model for national beekeeping and dairy husbandry programs.

The TDF, of course, did not start out on such a grandiose scale. Its first poultry production operation was quite modest and encountered most of the unforeseen problems that slow the acceptance of any new idea. However, the motivation, persistence and creativity - all important entrepreneurial characteristics - of the Foundation led to their success in the end. The result is a multi-tiered system of rural corporations owned in full or in part by producers. The whole system pays for itself, and it meets both commercial and development objectives.

Conclusion

The proposed legislation speaks to credit, and somewhat to the local orgaizations that have to be in place to effectively promote micro enterprise. To achieve its intended purpose, it has to speak to other issues that experience teaches can not be ignored. These include:

Equity/ownership of productive assets: Among the many reasons that people are poor is that they do not own or have control over productive assets. Productive assets are land, machinery, buildings, equipment, and knowledge of techniques about how to add value to resources, crops, or raw materials. Simply put, they are

the tools of increased productivity. The fundamental challenge of development is - getting ownership or control of productive assets into the hands of the poor. Accomplishing this is made difficult by scarce resources, hit or miss strategies, the limits of working through formal 'projects', and the presence of vested interests which, for one reason or another, do not want the status quo disturbed. Many attempts have been made to provide the poor with opportunities to gain equity in productive assets. These include cooperatives development, land tenure reform, subsidized lending, structural adjustments in the economy, and micro/small-scale private sector development.

Unfortunately, ownership of productive assets is not enough. The crucial element is control, because sometimes the poor own productive assets but do not effectively control them. Some degree of influence backward to raw materials and forward to markets is needed if the benefits of increased productivity are not to be appropriated by others. Organizations that can address this issues have to be present for the long term. Funds are needed to help them be there, and to assist them to assume their necessary roles.

Technology for Micro and Small Enterprise: If small enterprise development is the strategy used to resolve equity problems among the poor, the enterprises will have to have some competitive advantage to survive, and then to thrive. The advantage may be in market, product, or price. Most often, it is in price - either to be able to sell an unavailable product at a price low income people can afford, or to sell an available product at a cheaper price. Ninety percent of the small business ventures I've reviewed in the last ten years fall into either or both of these categories. One of the principal factors effecting price is cost of production, and this is primarily influenced by the selection of the technology for production, no matter how simple.

Technology is the machinery, procedures, and/or knowledge necessary to 'do' something. Selecting the right one that balances business concerns with social objectives is a difficult job. Many groups have been trying to help with this, such as the Intermediate Technology Group in UK, TOOL in the Netherlands, and Appropriate Technology International in the USA. Their experience reveals that appropriate technology choice is a key factor in successful small businesses, but no more so than good management and marketing. You can't do without it, but having it doesn't guarantee success.

Preservation of the natural resource base: In rural areas, the majority of new micro and small enterprises are going to be related to agro-processing, or 'off farm' manufacturing of some sort. Only a few will be trading enterprises. The former will consume some part of the natural resource base - land, water, minerals, biomas, etc., or will have some impact on them. Careful consideration has to be given to the impact small enterprises as a group will have on the local natural resource base. If we don't, our programs could be trading present problems for more serious future problems. If we don't, we ignore the important issue of sustainability - how is the enterprise going to get its raw material through time, and how is the source of raw materials going to be maintained/preserved.

Mr. Chairman, thank you very much.

PREPARED STATEMENT OF DENNIS BRENNAN, DEPUTY ASSISTANT ADMINISTRATOR, AGENCY FOR INTERNATIONAL DEVELOPMENT [A.I.D.]

Thank you, Mr. Chairman.

I am pleased to have this opportunity to discuss with you A.I.D.'s commitment to micro- and small-scale enterprise development in developing countries, the nature and recent growth of our program, and the lessons we believe we have learned in this area.

A.I.D. welcomes the interest of the Congress in the micro- and small enterprise dimension of our approach to dealing with the income, employment and production needs of the poor majority. A.I.D. has been in the forefront during the last ten years in research and development to improve the state-of-the-art. It has provided leadership to our partners in this venture -- the U.S. PVOs and other nonprofit organizations, cooperatives, universities, private consultants, and even our fellow bilateral and multilateral donors -- in order to increase the whole development community's commitment and capabilities in addressing micro- and small-scale enterprise needs. A.I.D.'s pioneering efforts have contributed to the mobilization of external interest and support, including this Committee's.

How we got where we are

A.I.D. is now at the point of formulating a formal strategy for micro- and small-scale enterprise development. Last December A.I.D. convened a workshop in Williamsburg, Virginia, that brought together A.I.D. staff who had been involved in micro- and small enterprise programming, together with the principal academicians and practitioners who had been most heavily involved in research, evaluation and operational programs for A.I.D. in this sector in recent years. The workshop demonstrated the considerable momentum built by A.I.D. in the micro- and small enterprise development area and highlighted how much we have learned about this crucial sector, how to assist it, and perhaps equally important, the actions to avoid that would not help.

The elements of the Agency's experience to date in the micro- and small enterprise area can be categorized in two general groups:

Research on the sector. Through research we now are coming to understand the full extent of the size of this sector, its relative economic efficiency, its industrial linkages and its contribution to household incomes. Thanks largely to worldwide survey research carried out by Michigan State University under A.I.D. sponsorship, we now know how small-scale manufacturers are capitalized, what their resource bases

consist of, what institutions they depend on, what they perceive their constraints to be, what their prospects for growth are, and how they are affected by policies. Although there are still important questions remaining to be answered, we are now in a good position to identify interventions at all levels -- from policy reforms, through technology transfer, down to specific firm-level inputs such as credit and training -- that enhance the growth, employment, income or productivity prospects of small-scale manufacturing enterprises. A.I.D. has also invested heavily in related global and country-specific research on private and public institutional development in the LDCs, market performance, human resource development, and technology acquisition, all related to increasing the knowledge base upon which to build a worldwide program of micro- and small enterprise development.

Demonstration projects. A.I.D. has been funding projects to assist micro- and small enterprises at least since the Alliance for Progress in the 1960s. Some were government-to-government projects, involving banks, intermediary financial institutions and other formal private and public resource institutions. Others were based on direct grants, principally to U.S. entities such as the PVOs, cooperatives and organizations like the Pan American Development Foundation. About ten years ago a commitment was made by A.I.D. to probe systematically the lower scale limits of small enterprise assistance. The question was raised: to what extent were the very smallest firms being reached by donor projects, and how much farther down was it possible and cost-effective to push such direct business assistance? This was the genesis of the so-called "PISCES" project which began with a comprehensive review of what the Agency had done to date, and more importantly sponsored a series of case studies throughout the developing world in order to understand what were the elements of small business assistance projects that worked, and that didn't work. Based on these case studies and the lessons learned therefrom, a series of demonstration projects was executed by A.I.D. under the second phase of PISCES during the late 1970s and early 80s. At the same time, A.I.D. gathered information on the performance of similar projects that had been informed by the PISCES research. A.I.D. published the resultant PISCES II report during 1985, together with several other evaluation and research monographs on micro- and small enterprise assistance projects. This large body of knowledge raised manyfold the awareness level of the potential opportunities for assistance to this sector.

In the last few years many smaller A.I.D. micro- and small enterprise projects matured, raising the perception of the need to increase the operational scale of what were otherwise modest projects that appeared to work. A.I.D. also began to recognize that substantial untapped potential for the Agency's "private enterprise" initiative lay with the more labor-intensive and efficient private micro- and small-scale enterprises. Most important, the U.S. PVO community, with A.I.D.'s active support and encouragement, embraced enterprise and employment projects as a complement to their social, feeding, community development and other so-called "non-productive" project activities. The PVOs were found to have a substantial natural advantage in

the crucial outreach and capacity-building functions that are important components of many successful micro- and small enterprise assistance projects.

The preceding section described the road to Williamsburg, and the information and experience with which it was paved. The following sections will describe in brief detail the substance of the conclusions reached while there.

1. The macroeconomic environment and policy reform. In many countries, there are significant policy distortions that adversely affect micro- and small enterprise prospects. It was agreed that A.I.D. should continue to place high priority on encouraging countries to remove policy distortions that unfairly disadvantage micro- and small enterprises. It was agreed that under extreme conditions in which policy biases against micro- and small enterprises were extraordinarily powerful, no amount of direct assistance of any type would make sense, and none should be delivered, since it would not get at the fundamental problem of low labor productivity, income or other poverty-causing conditions. On the other hand, maintaining a scale-neutral policy environment or instituting suitable reforms should be complemented by increased resource availability for producing firms benefited by new markets or increased productivity opportunities made possible by the policy changes.

Limits on physical, legal and communications infrastructure, typical in much of the developing world, will also provide a serious environmental constraint to micro- and small enterprise growth prospects. Thus, for example, in the Sahel or the South American altiplano, complementary high-level infrastructural investment may be required as a precondition for achieving sustainable improvements in micro- and small enterprise performance.

The level of aggregate demand in a region may similarly impose limits on what can be achieved sustainably for micro- and small-scale producers. Merely stimulating additional production without changing underlying labor or capital productivity, especially in highly competitive or otherwise static markets, will succeed only in providing at best a short-term income rush (at a cost to other producers who may lose business in the short run) which will be dissipated in the long run through competition.

Most developing countries are predominantly rural and their economies depend upon productivity and incomes in the agricultural sector. Since growth of micro- and small enterprises is generally driven by increases in the demand for their goods and services from farm households and producers, strategies for increasing incomes of these enterprises should be tied closely to productivity growth and transformation of the agricultural economy.

2. Institutional development -- nature and role of assistance intermediaries. To assist micro- and small enterprises intermediaries are needed through which productivity-enhancing resources can flow. These institutions may need to be created from the ground up -- especially in Africa. The process of institution-building is neither quick nor cheap. One important objective must be to reduce recurrent cost subsidies to a minimum so that institutional growth and reach is not unduly constrained by tight operational budgets.

Additional investments by donors such as A.I.D. may be needed for some time to help local institutions provide useful education and training, technical and management assistance, and other support services.

U.S. PVOs, cooperatives and other NGOs have distinguished themselves in building capacity in these local NGOs, financial intermediaries, small-scale business associations, and other developing country institutions. A.I.D. and other donor experience worldwide shows very few cases of indigenous organizations capable of building the capacity to run micro- and small enterprise programs efficiently. Although offshore technical assistance is initially required to provide needed institution-building services, projects should be designed to encourage withdrawal of expatriate inputs at the earliest time possible both to reduce costs and to stimulate indigenization.

3. Scale of enterprise and target beneficiaries. Each region, country or context will have its own mix of opportunities, special conditions, constraints and income and size distributions. Arbitrary and global guidance regarding targeting and scale may be counterproductive. Thus, basing a strategy on differences involving "small" versus "micro-", urban versus rural, and targeting by income-ascriptive rather than production characteristics is not seen to be helpful. For example, if employment generation is meant to be the goal, then strategic decisions are likely to be based on firm size and are likely to suggest targeting labor-intensive firms in the manufacturing or service subsectors. These may not be the firms owned and operated by the poorest, but they may provide relatively more sustainable employment opportunities for the poor than if the poor's own firms were targeted directly in the first place. On the other hand, if enhancing the incomes of the poor is the goal, then targeting the service and commercial subsectors, as well as smaller-size firms, may be the most appropriate strategic approach.

For reasons relating to productivity and to the capability of converting costly project assistance investments into growth, sustainable income streams and increased labor demand, many believe manufacturing enterprises to be the preferred assistance targets. However, commercial micro- and small enterprises play important productive and catalytic roles in developing country economies and should be selectively targeted as well. Few believe that direct assistance programs targeted on marginal hawkers, vendors and other over-competitive under-employed commercial survival activities are very useful. Rather, general interventions stimulating economic growth thereby leading to employment by others, or social interventions including human resource development, are widely regarded as more useful ways of helping poor people engaged in these activities.

There is general agreement on the critical role of women and other less-empowered population groups as a high priority for attention by programs designed to stimulate micro- and small enterprise development. There are many examples of projects reaching women where improvements in equity were achieved at the same time as economic performance was improved.

4. Credit versus non-financial assistance. Mobilization locally of credit resources through well-functioning financial markets is essential for achieving program growth and long-term sustainability. As for credit as an input to the firm, it is seldom the principal constraint to the growth of micro- and small enterprises. Where it is needed it is made most effective by provision of companion non-financial inputs. Occasionally circumstances do exist where credit is the single binding resource constraint. Many firms, particularly in manufacturing where fundamental production skill and managerial capacity is present and where markets are expanding, may need only this one missing ingredient — access to more fixed or working capital — to reach new productivity, employment and income levels. These opportunities arise more often in dynamic economic environments; they are most infrequent among the least viable and smallest enterprises often identified with the economic activities of the poorest.

Financial and non-financial aspects of projects should be designed as an integrated package up front, and should be mutually reinforcing. Assistance to a local intermediary institution to upgrade its own managerial, technical and financial capacity will generally be required in order for that institution, in turn, to provide effective credit, and, if needed, training, technical assistance, market access and similar services to micro- and small-scale enterprises.

Finally, promising new approaches to technical assistance have recently been tried in A.I.D. projects based on helping to strengthen linkages between small and large firms within industrial sectors, such as through subcontracting relationships and ties with retailers. Substantial income and employment generation benefits accruing to poor families are attributable less to the credit component of such projects (where one exists at all), than to the industry-wide interventions which forge and reinforce production and commercial linkages in the system as a whole.

5. Cost-effectiveness of projects. Based on a strictly financial calculus, few institutions created or supported for micro- and small enterprise assistance purposes become financially self-sustaining in all aspects of their operation. However, at least for projects with a credit function, becoming self-financing with respect to credit operations is both desirable and feasible. Providing productivity or market-reach enhancing technical assistance and training functions at the firm level will usually be necessary, but how to finance it is more problematic, particularly for the weakest and most vulnerable enterprises which need it the most. Given the difficulty of financing these substantial and necessary costs out of the interest rate spread, the economic and social, rather than financial, benefit-cost calculus may have to be used to justify providing the subsidies required to finance this non-credit assistance. Complementary training and technical assistance interventions would be viewed as investment, in this case human resource investment, recoverable in the long run by the economy as a whole, though not recapturable as direct reimbursement by the providing institution. The subsidy required to provide these services would need to be paid by a third party, and/or recovered to the maximum extent feasible from those who would

ultimately enjoy the benefits from the investment. It is essential that the presence of these subsidies be explicit, and they must be limited in amount and duration.

Less obvious benefit streams are created by micro- and small enterprise assistance projects, including less visible secondary and tertiary economic benefits, the creation of other institutional, social and systemic processes and infrastructure, and individual and group empowerment.

Finally, there is general agreement that based on the well-documented variability of the underlying economic, social, policy and institutional conditions that differentiate developing countries and even their constituent sub-regions, identification of models for wholesale replicability is not likely to be part of the solution of the micro- and small enterprise assistance package. Formula approaches that ignore the importance of the local natural resource base, monetization of the rural economy, population densities, tribal, caste and communal hierarchies, and especially intangibles like leadership, have not been notably successful. One thing we have learned, at some considerable cost, is that there are no easy or generic solutions to what we now understand to be a problem of complex origins. There must be careful front-end analysis and thoughtful project design, not just a pool of financial resources and a faith that these projects will design and run themselves.

Implications of current legislation and where A.I.D. goes from here

A.I.D. is poised on a threshold of increasing understanding and commitment in the micro- and small-scale enterprise assistance area. Many of our field missions have recently embarked, or soon will, on "second generation" micro- and small enterprise assistance projects based on large-scale bilateral funding, wholesaling institution- and technical capacity-building among local organizations through so-called "umbrella" projects, and through increasing numbers of PVO co-financing projects with increased focus on micro- and small enterprise activities. It can be clearly envisaged how, for example, more local currencies, if made available without imposing high opportunity costs, could be channelled productively to reinforce this already upward trend. However, overall absorptive capacity for local currency to be used for lending and non-financial assistance to micro- and small enterprises in developing countries while certainly present to some extent, is limited. Most importantly, absorptive capacity is constrained by host countries' and our abilities to build in a timely fashion the necessary institutional capabilities. Especially where the local currencies are intended to be lent rather than granted to an intermediary, very few institutions with the necessary commitment to micro- and small entrepreneurs, but without the track record and appropriate credit supervisory systems in place, will be able to qualify as responsible borrowers without substantial front-end capacity-building. Incremental steps are certainly appropriate, but they must be measured ones, due to the intermediary constraint. Certainly there is scope for replacement with local currencies of portions of dollar-funded projects, which creates a leveraging capability for the limited A.I.D. dollar resources intended for micro- and small-scale enterprise assistance projects.

Specific actions now being taken by A.I.D. to implement the expected new strategy for micro- and small enterprise development include the following:

- A.I.D. missions worldwide are being asked to provide an up-to-date accounting of all micro- and small-scale enterprise assistance activities currently funded out of appropriated dollar funds and using host country-owned and U.S.-owned local currencies. These data will be used as a base-line against which to measure progress for new initiatives that the Agency expects to establish.

- The 1988 Congressional Presentation describes a new concept for the Agriculture, Rural Development and Nutrition account (Section 103), in terms of an income-oriented rather than agricultural production-oriented approach to the problems of hunger and poverty. Given our new knowledge on the extent of non-farm income sources in rural areas, this equates with a heightened commitment to enhancing the performance of non-agricultural rural enterprises.

- New technical support resources have been put in place in the A.I.D./Washington Bureau for Science and Technology, including the "ARIES" project which provides a mechanism for A.I.D. mission-funded institution-building services to U.S. PVOs and host country assistance institutions, and the Employment and Enterprise Policy Analysis Project, the purpose of which is to analyze and reform developing country policies that are biased against otherwise efficient, labor-intensive micro- and small-scale enterprises. A similar project focusing explicitly on agricultural policies promotes policy reform to generate higher farm incomes and derivative demand for the products of local non-farm small-scale producers.

- The Office of Private and Voluntary Cooperation has restructured its matching grant and other PVO central support mechanisms to encourage these organizations to develop more micro- and small enterprise assistance projects in their field operational portfolios.

- A.I.D. is working collaboratively with Appropriate Technology International (ATI), to begin systematically assisting field missions to design projects which place additional local currencies in competent host country institutions that support micro- and small enterprise development. In addition to catalyzing the placement of these additional local currencies, ATI intends to leverage its own program by replacing its own centrally-funded dollar resources, to the maximum extent possible, with local currencies made available through cooperation with A.I.D. field projects and host country governments.

- The joint A.I.D.-Peace Corps Small Projects Assistance Program (SPA) has been encouraged by A.I.D. to increase its focus on new private sector micro- and small-scale enterprise development initiatives. Increasing numbers of Volunteers are receiving A.I.D.-funded technical support to help provide credit and technical assistance to businesses too small and poorly managed to qualify for loans from the established banking system in nearly a dozen countries, with more expected in the future.

- Reflecting the persistent gaps in understanding of this sector, the Agency is committed to continuing its knowledge-building activities through new research and evaluation. In the Science and Technology Bureau a new Employment Research project, focusing on the employment aspects of micro- and small enterprise development, is planned to begin this year, and a new activity focusing on the process of productivity-enhancing technology acquisition is under active consideration. Two initiatives from A.I.D.'s Center for Development Information and Evaluation will begin soon, focusing on institutional sustainability and a first-time ever review of micro- and small enterprise projects five or more years after external donor support is terminated.

A.I.D. stands ready and willing to work closely with the Congress, the PVO and cooperative communities, and other concerned groups to develop sound, workable approaches to expand and improve resource availability for micro- and small-scale enterprises in developing countries.

Thank you for your attention.

RESPONSES TO QUESTIONS FOR DENNIS BRENNAN

QUESTIONS SUBMITTED BY HON. MICKEY LELAND

Question. Could you provide the committee with a detailed breakdown of the Agency's current efforts to support microenterprise and small-scale credit programs? If this information is not currently available, could you inform us of what steps are being taken to collect this information and provide the committee with the results of your efforts when they are completed?

Answer. Although A.I.D. has been involved in micro- and small-scale enterprise assistance projects for many years, because these activities have been so decentralized in their implementation and may run as adjuncts to related projects, we cannot provide the committee with an acceptably detailed current breakdown. However, last month we took steps to remedy this gap in our informational base with the issuance of a worldwide cable to all A.I.D. field posts requesting current information on micro- and small-scale enterprise project activities, broken down into credit and nonfinancial assistance, as between so-called micro- and small-scale, and with respect to funding source (dollar or local currency). A copy of this cable is attached for the record. Presently the responses are being received in Washington, and after consistency checking and tabulation will be provided to this committee for its information.

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29
30  O 2101347 MAR 87 ZEX
31  FM SECSTATE WASHDC
32  TO AID WORLDWIDE IMMEDIATE
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34  UNCLAS STATE 084077
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36  AIDAC:  FROM ADMINISTRATOR TO PRINCIPAL AID OFFICERS
37
38  E.O. 12356:  N/A
39
40  SUBJECT:  LOCAL CURRENCY GENERATIONS, PVOS, MICRO AND SMALL
41  ENTERPRISE
42
43  1.  SUPPORT FOR PVOS AND NGOS:  IN ADDITION TO AID.S OWN
44  INTEREST IN UTILIZING TO THE WIDEST EXTENT POSSIBLE AND
45  PRACTICAL THE SPECIAL EXPERTISE OF U.S. AND INDIGENOUS
46  PVOS-NGOS, THE CONGRESS HAS SEVERAL PROPOSALS UNDER CON-
47
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SIDERATION TO EARMARK AS MUCH AS 25 PERCENT OF THE DA ACCOUNT, AND ALSO TO SET ASIDE FOR PVOS SUBSTANTIAL AMOUNTS OF ESF, DA AND PL 480 RESOURCES, IN THE FORM OF DOLLAR LOANS REPAYABLE IN LOCAL CURRENCY. WHILE THE PROPOSED AMENDMENTS HAVE ATTRACTIVE QUALITIES, WE ARE CONCERNED THAT THEY ARE OVERLY RESTRICTIVE AND POSSIBLY REDUNDANT. PVOS-NGOS, WE BELIEVE, ALREADY GET FROM COUNTRIES RECEIVING NON-PROJECT ASSISTANCE SIGNIFICANT AMOUNTS OF THE ASSOCIATED HOST COUNTRY OWNED LOCAL CURRENCY GENERATIONS. AND PVOS-NGOS INVARIAPLY RECEIVE MORE DIRECT DOLLAR SUPPORT THAN IS PROJECTED IN THE ANNUAL CONGRESSIONAL PRESENTATION. TO PRESENT ALTERNATIVES TO PENDING LEGISLATION AS EFFECTIVELY AND INFORMATIVELY AS POSSIBLE, IT IS NECESSARY TO IMPOSE ON EACE MISSION A SPECIAL REQUEST FOR DATA ON THE EXTENT TO WHICH U.S. PVOS AND INDIGENOUS PVOS-NGOS ARE RECEIVING DIRECT DOLLAR SUPPORT FROM AID, AS WELL AS HOST COUNTRY-

OWNED LOCAL CURRENCIES GENERATED FROM ESF AND DA FINANCED NON-PROJECT AID, AND FROM THE SALE OF PL 480 COMMODITIES. (SEE PARA. FOUR BELOW REGARDING MICRO AND SMALL ENTERPRISE.)

2. THE LEVEL OF EFFORT EACH MISSION COULD DEVOTE TO COMPILING THIS DATA (AS WELL AS THE DATA REQUESTED IN PARA. SIX) MAY BE OVERWEELMING. THIS REQUEST IS NOT INTENDED TO CALL FOR THAT. IF FURTHER DATA IS WANTED, IT WILL BE REQUESTED SEPARATELY AND INDIVIDUALLY FROM CONCERNED POSTS. (REGULAR REPORTING ON THE SUBJECT IS LIKELY TO BE REQUESTED IN THE FUTURE, HOWEVER. IF SO, THE ANNUAL ABS IS THE PROBABLE DEVICE.) THE SOURCE OF THIS INFORMATION MUST BE AID FIELD POSTS. IN SOME INSTANCES HARD DATA WILL BE READILY AVAILABLE. IN OTHERS, MISSIONS IN CONSULTATION WITH THE HOST GOVERNMENT ARE ASKED TO CABLE THEIR JUDGMENT ON THE ESTIMATED LEVELS.

3. ALL MISSIONS ARE REQUESTED TO CABLE THIS PORTION OF THEIR REPLY IN THE FOLLOWING FORMAT:

- ESF AND DA
- DIRECT DOLLAR COMMITMENTS
- FOR
- PVOS - NGOS
- (IN THOUSANDS OF U.S. DOLLARS)

	FY 86 ACTUAL	FY 87 EST.	FY 88 PLANNED
A. ESF DOLLAR COMMITMENTS			
- 1. FOR U.S. PVOS			
- 2. FOR INDIGENOUS PVOS-NGOS			
B. DA DOLLAR COMMITMENTS			
- 1. FOR U.S. PVOS			
- 2. FOR INDIGENOUS PVOS-NGOS			

THE EXPENDITURE OF NON-PROJECT ASSISTANCE LOCAL CURRENCY
- GENERATIONS FOR USE BY PVOS-NGOS
- (IN THOUSANDS OF U.S. DOLLAR EQUIVALENTS)

SOURCE	FY 86 ACTUAL	FY 87 EST.	FY 88 PLANNED

I. FROM ESF GENERATIONS
- A. FOR USE BY U.S. PVOS
- B. FOR USE BY INDIGENOUS PVOS-NGOS

SOURCE	FY 86 ACTUAL	FY 87 EST.	FY 88 PLANNED
II. FROM DA GENERATIONS			
- A. FOR USE BY U.S. PVOS			
- B. FOR USE BY INDIGENOUS PVOS-NGOS			
III. FROM PL 480 GENERATIONS			
- A. FOR USE BY U.S. PVOS			
- B. FOR USE BY INDIGENOUS PVOS-NGOS			
TOTAL			

-- PLEASE REPORT ALL FIGURES IN THOUSANDS OF U.S. DOLLAR EQUIVALENTS.

-- PLEASE REPORT ALL FIGURES ON THE BASIS OF EXPENDITURES, ACTUAL FOR FY 86, ANTICIPATED FOR FY 87 AND 88.

4. SMALL FARMER AND MICRO AND SMALL ENTERPRISE DEVELOPMENT: ALSO UNDER SERIOUS CONGRESSIONAL CONSIDERATION IS LEGISLATION REQUIRING A.I.D. TO PROVIDE A SUBSTANTIAL AMOUNT OF ESF AND DA IN THE FORM OF LOANS, WITH THESE LOANS REPAYABLE TO A.I.D. IN LOCAL CURRENCY, AND THAT LOCAL CURRENCY THEN TO BE USED BY A.I.D. PRIMARILY FOR CREDIT TO MICRO AND SMALL ENTERPRISES AND SMALL FARMERS. SEPARATE LEGISLATION WOULD REQUIRE THAT 65 PERCENT OF PL 480 ACTION 108 FUNDS BE USED IN THIS MANNER. THE PROPOSED LEGISLATION IS BASED ON THE ASSUMPTION THAT A.I.D. IS DOING LITTLE TO PROVIDE CREDIT RESOURCES FOR THE POOR. LIKE THE PROPOSED LEGISLATION DISCUSSED IN PARA. ONE ON PVOS-NGOS, THE SMALL FARMER AND MICRO AND SMALL ENTERPRISE PROVISIONS WHILE WELL INTENTIONED HAVE AN ADDED ASPECT OF BEING EXTRAORDINARILY BURDENSOME ADMINISTRATIVELY. WITH SIX YEARS OF A.I.D. EMPHASIS ON PRIVATE ENTERPRISE DEVELOPMENT AND A LONGER HISTORY OF CREDIT PROGRAMS FOR SMALL FARMERS, IT SEEMS CERTAIN THAT MUCH ALREADY IS BEING DONE UNDER OUR BILATERAL PROGRAMS TO PROMOTE MICRO AND SMALL ENTERPRISE AND SMALL FARMER CREDIT PROGRAMS. AID/W, HOWEVER, DOES NOT HAVE A SUFFICIENTLY PRECISE FIX ON EITHER LEVELS OR ACTIVITIES THAT CAN BE USED IN DISCUSSIONS WITH THE CONGRESS. IT IS QUITE POSSIBLE, FOR EXAMPLE, THAT MUCH MORE IS UNDERWAY WITH DIRECT DOLLAR FINANCING FROM ESF AND DA AND WITH PL 480 GENERATED LOCAL CURRENCIES, THAN AID/W IS AWARE OF. ALTHOUGH NO REPORTING HAS BEEN REQUIRED TO DATE, IT ALSO IS EQUALLY LIKELY THAT A SIZEABLE AMOUNT OF THE HOST COUNTRY OWNED LOCAL CURRENCY GENERATED FROM ESF OR DA FUNDED NON-PROJECT ASSISTANCE AND PL 480 SALES IS DIRECTED BY THESE COUNTRIES IN COLLABORATION WITH A.I.D. FOR SMALL FARMER AND MICRO AND SMALL ENTERPRISE PROGRAMS. TO INFORMATIVELY NEGOTIATE PRACTICAL ALTERNATIVES TO THE PENDING LEGISLATION, IT IS NECESSARY TO REQUEST OF ALL POSTS A CABLE REPORT ON THE SUBJECT OF ASSISTANCE FOR SMALL FARMER AND MICRO AND SMALL ENTERPRISE DEVELOPMENT.

5. MOST MISSIONS WILL HAVE DETERMINED WHAT CHARACTERIZES A SMALL FARM ENTERPRISE. THERE IS, HOWEVER, NO AGREED DEFINITION EITHER ON WHAT COMPRISES A SMALL ENTERPRISE OR ON THE POINT BELOW WHICH A SMALL ENTERPRISE CAN BE CATEGORIZED AS A MICRO ENTERPRISE. BECAUSE A PARTICULAR COUNTRY'S ECONOMIC CHARACTERISTICS WILL INDIVIDUALLY DEFINE WHAT EITHER IS, MISSIONS MUST DECIDE THEMSELVES ON EACH CATEGORY. IN THE WAY OF ILLUSTRATION, DURING RECENT CONGRESSIONAL HEARINGS AND PERHAPS HELPFUL TO MISSIONS AS SOMETHING OF A RULE OF THUMB, THERE IS SOME ACCEPTANCE OF A MICRO ENTERPRISE AS ONE HAVING BETWEEN TWO AND TEN EMPLOYEES, AND A SMALL ENTERPRISE AS HAVING BETWEEN ELEVEN AND TWENTY FIVE EMPLOYEES. OTHER FACTORS SUCH AS ACCESS TO FORMAL CREDIT COULD BE MORE RELEVANT TO A MISSION'S OWN DEFINITION. IN RESPONDING TO THIS REQUEST, THEREFORE, A BRIEF EXPLANATION OF THE MISSION'S DEFINITION OF A MICRO ENTERPRISE AND A SMALL ENTERPRISE IS TO BE INCLUDED. ALTHOUGH NOT CALLED FOR AT PRESENT, BUT SUBJECT TO SUBSEQUENT INQUIRY, MISSIONS ARE ENCOURAGED TO PROVIDE SOME NARRATIVE EXPLANATION OF MAJOR PROGRAMS, ESPECIALLY THOSE FINANCED FROM LOCAL CURRENCY GENERATIONS.

6. PLEASE CAPLE YOUR REPORT IN THE FOLLOWING FORMAT:

FSP AND DA
DOLLAR COMMITMENTS FOR MICRO AND SMALL ENTERPRISE PROGRAMS
(U.S. DOLLARS THOUSANDS)

	FY 86 ACTUAL	FY 87 EST.	FY 88 PLANNED
I. ESF DOLLAR COMMITMENTS			
A. FOR MICRO ENTERPRISE			
1. FOR CREDIT			
2. FOR TA/TRAINING			
B. FOR SMALL ENTERPRISE			
1. FOR CREDIT			
2. FOR TA/TRAINING			
C. FOR SMALL FARMER			

	FY 86 ACTUAL	FY 87 EST.	FY 88 PLANNED
1. FOR CREDIT			
2. FOR TA/TRAINING			
II. DA DOLLAR COMMITMENTS			
A. FOR MICRO ENTERPRISE			
1. FOR CREDIT			
2. FOR TA/TRAINING			
B. FOR SMALL ENTERPRISE			
1. FOR CREDIT			
2. FOR TA/TRAINING			
C. FOR SMALL FARMER			
1. FOR CREDIT			
2. FOR TA/TRAINING			

- TBE EXPENDITURE OF NON-PROJECT ASSISTANCE
LOCAL CURRENCY GENERATIONS FOR MICRO AND SMALL ENTERPRISE
- PROGRAMS
- (IN THOUSANDS OF U.S. DOLLARS EQUIVALENTS)

	FY 86 ACTUAL	FY 87 EST.	FY 88 PROPOSED
I. FROM ESF GENERATIONS			
A. FOR MICRO ENTERPRISES			
1. FOR CREDIT			
2. FOR TA/TRAINING			
B. FOR SMALL ENTERPRISE			
1. FOR CREDIT			
2. FOR TA/TRAINING			
C. FOR SMALL FARMER			
1. FOR CREDIT			
2. FOR TA/TRAINING			
II. FROM DA GENERATIONS (IF ANY)			
A. FOR MICRO ENTERPRISES			
1. FOR CREDIT			
2. FOR TA/TRAINING			
B. FOR SMALL ENTERPRISES			
1. FOR CREDIT			
2. FOR TA/TRAINING			

-	FY 86 ACTUAL	FY 87 EST.	FY 88 PROPOSED
III. FROM PL 480 GENERATIONS			
A. FOR MICRO ENTERPRISE			
1. FOR CREDIT			
2. FOR TA/TRAINING			
B. FOR SMALL ENTERPRISES			
1. FOR CREDIT			
2. FOR TA/TRAINING			
C. FOR SMALL FARMER			
1. FOR CREDIT			
2. FOR TA/TRAINING			

8. BECAUSE OF THE URGENCY OF THE PENDING LEGISLATION, AND OUR COMMITMENT TO PROVIDE THIS INFORMATION TO THE CONGRESS QUICKLY, AN IMMEDIATE CABLED RESPONSE IS REQUESTED NOT LATER THAN ONE WEEK FOLLOWING THE MISSIONS' RECEIPT OF THIS MESSAGE. PLEASE SLUG ALL RESPONSES FOR THE ATTENTION OF R.HECHTMAN, FPC/PB. YOUR TIMELY ASSISTANCE ON THIS MATTER IS APPRECIATED. SEULTZ

Question. In order to reach poor individuals with credit, would it be useful to implement a cap on the level of loans provided by the financial intermediaries? If so, what would you recommend as the level of the cap, and if not, why would a loan cap be ineffective.

Answer. A.I.D.'s research and its recent experience suggest that a rigid loan ceiling is not critical to assuring that credit resources are used to benefit the poor, and moreover that under certain circumstances imposition of such a ceiling may actually interfere with achievement of a project's developmental and anti-poverty objectives. Although there are some very small credit projects which reach the poor, their success in this respect may be due to a complex of factors, not just that the average loan size has been quite small. Many other credit projects may be cited worldwide that equally well reach the poor but do so with larger average amounts of credit, or a mix of loan size ranging higher than the $100–$300 often identified as an "appropriate" ceiling for guaranteeing that funds reach primarily a poor target group.

There are a number of reasons why A.I.D. believes that encouraging flexibility in an intermediary's loan portfolio contributes to the achievement of the sustainable poverty reduction and institution-building objectives which these projects are meant to promote:

Exclusion of manufacturing businesses.—Balanced growth, sustainable increases in income, and secondary demand may depend critically on raising the productivity of small-scale labor-intensive industries. This is normally accomplished through acquisition of equipment, upgrading of technologies, and—especially where the agricultural sector among which the poor are living is transforming—seizing new opportunities to support this agricultural transformation. Such initiatives also increase the demand for the goods and services of other small producers, retailers and service-providers. However, these initiatives normally require capital investments in excess of a few hundred dollars. To not support these investments because of an arbitrary loan size limit implies the loss not only of the primary opportunity, but the secondary income-generating impacts for farmers and other small producers as well.

Transactions costs.—A credit project can survive and be effective only as long as the credit intermediary remains financial healthy. Quite apart from the commercial risks to the institution associated with lending to the poor, even a program with nominally high recuperation rates will be subject to transactions costs that are higher per dollar lent the smaller is the loan size. These transactions costs normally will exceed the revenues recoverable through charging of a market interest rate. One way of limiting the subsidies required to cover these costs, or the decapitalization that is the alternative, is to allow for at least some larger-size loans which reduce average lending costs in the program.

Diversification.—Intermediaries which lend to the poor as if they are banks are subject to the same "natural" financial laws and phenomena as other banking institutions. One of the critical strategies for ensuring sustainability in financial institutions is the ability to diversify portfolio. This applies not just to loan-size diversification but to sectoral/industrial diversification as well. Imposing a low loan ceiling for whatever reason has the unfortunate side effect of limiting the diversification on which long-term institutional sustainability may depend. True community-serving institutions should not allow themselves to be vulnerable to the downside fortunes of just one segment, as would be the case, for example, were just hawkers, vendors, and other informal retailers to be the sole beneficiary group, as could happen when low loan ceilings limit diversification opportunities.

Secondary employment.—It is A.I.D.'s experience that while many poor are indeed entrepreneurial and capable of being benefited by credit, the majority will be assisted more sustainably by increases in off-farm earning opportunities provided by general economic growth, particularly through increased employment demand in productive labor-intensive small industries. Focusing on the marginally larger credit requirements of these slightly larger small firms having new technology, market, and employment growth prospects, is at once less risky for the institutions involved with assisting them and likely to generate more sustainable income streams for the poor whose labor resource can be more efficiently applied to these demands than to those of running their own, relatively low productivity, business enterprises.

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